

**POLITICAL ECONOMY OF FISCAL CRISIS  
IN A RENTIER STATE:  
CASE STUDY OF SAUDI ARABIA**

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## **Abstract**

The primary objective of this thesis is to analyse the socio-economic and political repercussions of the fiscal crisis of the Saudi state generated by the decline in oil revenues since the mid 1980s. The study, using a political economy approach, examines the dynamics of the fiscal crisis and the nature, scope and dimension of the challenges confronting the Al-Saud regime as a result of its economic difficulties.

In rentier states the availability of exogenous revenues, directly accruing to the government, affects the nature of relations between state and society, the way interests are mediated and the relationship between the consensual and coercive aspect of hegemonic rule. The government, whose primary function is to allocate oil royalties through various channels, is able to assume a pivotal role in shaping and determining the socio-economic and political development of the country. This process, in turn, engenders new patterns of social mobility and the strengthening, or the emergence, of socio-political alliances that determine the state's margin of manoeuvre. In an era of fiscal stringency, a retreat, even a partial retreat, of the state from its rentier nature requires a re-negotiation of the state's hegemonic strategies and a re-definition of its 'pact' with society. To resolve the crisis, the government seems to have two options: it can opt for an inclusionary strategy, both politically as well as economically, and thereby strengthen the consensual basis of its hegemony, or resort to exclusionary and coercive tactics.

While the predominant assumption is that economic difficulties translate into greater demands for political participation, there is no direct or mechanistic link between a fiscal crisis and political change. Many intermittent variables influence the economic-political relationship. These variables condition the options available to the government in responding to the fiscal crisis and thus can inhibit, postpone or facilitate the manifestation of an economic crisis in the political realm. So far the Saudi government's response to the declining revenues – to finance the budget deficits rather than to adopt a structural adjustment package – has allowed it to postpone the re-definition of its 'pact' with society. At the same time, the fiscal priorities of the state have affected the various strata of society to varying degrees, engendering increasing wealth discrepancies, a crystallisation of class interests and power inequalities. These processes all lead to a gradual diminution of the consensual foundations of the regime and, combined with an increased integration into the global economy, reduce the regime's immunity to domestic pressures.

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## **LIST OF ACRONYMS AND ABBREVIATIONS**

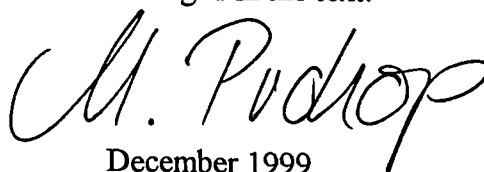
<b>APS</b>	<b>Arab Press Service</b>
<b>b/d</b>	<b>barrels per day</b>
<b>C.A.C.S.A.</b>	<b>Committee Against Corruption in Saudi Arabia</b>
<b>CDLR</b>	<b>Committee for the Defence of Legitimate Rights</b>
<b>EIU</b>	<b>Economic Intelligence Unit</b>
<b>FT</b>	<b>Financial Times</b>
<b>GCC</b>	<b>Gulf Co-operation Council</b>
<b>GDP</b>	<b>Gross Domestic Product</b>
<b>GNP</b>	<b>Gross National Product</b>
<b>IMF</b>	<b>International Monetary Fund</b>
<b>m b/d</b>	<b>million barrels per day</b>
<b>m t/d</b>	<b>million tonnes per day</b>
<b>MEED</b>	<b>Middle East Economic Digest</b>
<b>MIRA</b>	<b>Movement for Islamic Reform in Arabia</b>
<b>n/a</b>	<b>not available</b>
<b>OPEC</b>	<b>Organisation of Petroleum Exporting Countries</b>
<b>SAAB</b>	<b>Saudi Arabian Agricultural Bank</b>
<b>SABIC</b>	<b>Saudi Basic Industries Co-operation</b>
<b>SAMA</b>	<b>Saudi Arabian Monetary Agency</b>
<b>SG</b>	<b>Saudi Gazette</b>
<b>SR</b>	<b>Saudi Riyal</b>
<b>UAE</b>	<b>United Arab Emirates</b>

## GLOSSARY OF ARABIC TERMS<sup>1</sup>

<i>asabiyya</i>	group solidarity
<i>dawlah</i>	state
<i>dira</i>	grazing area
<i>fatwa</i>	legal judgement or view
<i>fitna</i>	dissension, civil war, strife, temptation
<i>hukumah</i>	government
<i>ijma</i>	consensus
<i>khurwa</i>	protection money
<i>kuffar</i> (also <i>kafir</i> )	unbelievers, infidels
<i>majlis al-shura</i>	consultative council
<i>mudarabah</i>	specific type of commercial activity
<i>mufti</i>	one who is qualified to deliver a <i>fatwa</i>
<i>mutawwa/ mutawwa'in</i>	religious police, in Saudi Arabia also called the Committee for the Propagation of Virtue and the Prohibition of Vice
<i>rafida</i>	derogatory expression used for Shi'a by Hanbali
<i>tawhid</i>	belief in Oneness or Unity, monotheism
<i>shari'a</i>	holy law of Islam
<i>shirk</i>	idolatry, polytheism
<i>shura</i>	consultation
<i>ulama</i> (singular <i>alim</i> )	religious scholars, jurists
<i>umara</i> (singular <i>amir</i> )	tribal sheikhs

### **Declaration**

The material contained in this thesis is the author's own work and has not been previously submitted for a degree in this or any other university. Material drawn from the literature of other authors or sources is acknowledged in the text.

  
December 1999

### **Statement of Copyright**

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**“...The days of abundant oil [revenues] are over  
and will not return ... ”**

**(Crown Prince Abdullah Bin Abdul-Aziz) <sup>2</sup>**



## INTRODUCTION

In August 1995, a decade after the precipitous decline in oil prices, King Fahd proclaimed: “[w]e have succeeded in dealing with the [economic] crisis and had to bear its consequences, which were not as harsh as shown by the international media. I can say we are in a better situation now as a result of the measures we have adopted” (APS, 7 August 1995, p.17). Towards the mid 1990s higher oil prices had temporarily eased the pressures on the Saudi treasury, and the overall economic indicators had improved after a series of budgetary deficits and an ensuing fiscal crisis of the Saudi state. The Kingdom’s dependency on oil as the primary source of government revenue and as a main component of the Gross Domestic Product (GDP), renders its economy extremely vulnerable to fluctuations in oil prices and the vicissitudes of the global market. The optimism was short-lived, at the end of 1998 oil prices fell again below the ten dollar threshold, Saudi Arabia’s GDP contracted by almost 11 per cent and the budget forecast for 1999 anticipated one of the largest deficits since the mid 1980s while domestic debt rose to over 100 per cent of GDP.<sup>3</sup> For the first time, a high-ranking member of the royal family publicly mentioned the urgency of the problem and the enormity of the challenge. On the occasion of the annual summit of the Gulf Co-operation Council (GCC) Crown Prince Abdullah reminded Saudi citizens that the days of abundance are of a bygone era and that they “must all get used to a different way of life, which does not stand on total dependence on the state” (MEED, 26 March 1999, p.11).

At the onset of the economic downturn in the mid 1980s, the government’s statements and fiscal priorities seemed to reflect the perception of the recession as a temporary phenomenon, one that would pass as soon as oil prices recovered again. The initial reaction of the government was to draw on its foreign assets, to borrow from the domestic market and to cautiously cut subsidies and overall expenditure, but it hesitated to introduce unpopular spending cuts and thorough economic reforms. After more than a decade of low oil prices, hopes that the economic problems would be self-correcting and symptoms of cyclical fluctuations in oil prices, gradually vanished. In the absence of structural reforms that would redefine the state’s allocative function and thus would lessen the dependence on oil, the fiscal crisis that initially appeared to be temporary has

become a recurrent feature, amplified by the effects of demographic growth, high military spending and rising expectations of the Saudi population.

Many analysts have wondered whether a long term fiscal crisis, and subsequent expenditure cuts and economic liberalisation, would lead to a political crisis. A plethora of articles and several books highlighted the vulnerability of the country and predicted the imminent escalation of a political crisis and ultimately the demise of the House of Saud.<sup>4</sup> While reports about the fragility of the House of Saud are not a novelty, throughout the upheavals of the 1960s and 1970s many observers had expected the overthrow of the monarchy, the number of articles anticipating an escalation of a political crisis increased in the second half of the 1980s when the Kingdom faced serious budgetary deficits and skyrocketed in the wake of Iraq's invasion of Kuwait and again in the aftermath of the bomb attacks in Riyadh in 1995 and in Al-Khobar in 1996. At the same time, other observers kept praising the country's stability and cohesion in the midst of a volatile region, stressing the resilience and longevity of the House of Saud.<sup>5</sup> These contradicting perceptions and reports often portray a simplistic and uni-dimensional picture of Saudi society and the country's internal stability, but unfortunately characterise the majority of the available literature on Saudi Arabia.

While the fiscal difficulties and the economic policies of Saudi Arabia have received widespread attention, surprisingly few studies have attempted to systematically analyse the impact of the decline in oil revenues and the changes this may engender for state-society relations. Many studies have looked at the implications of the economic changes wrought by the advent of oil rent or have concentrated on the relationship between private businesses and the government, but there is a lack of studies on the wider socio-political implications and developments occurring during the fiscal crisis.<sup>6</sup> For an understanding of the dynamics of the fiscal crisis and the nature, scope and dimension of the challenges confronting the regime as a result of the crisis, it is essential to examine the underlying socio-economic and political transformations. This study seeks to fill this void and focus on an analysis of the intermittent variables that determine or shape the crisis path and that prevent, postpone or encourage the transformation of the fiscal crisis to a political crisis. Such an analysis may also provide an explanation for the, so far relatively muted, political reverberations of the recession, the remarkable resilience of the House of Saud and the few, often isolated, incidences of open and violent dissent.

While in many respects the case of Saudi Arabia is unique, regarding for instance its non-colonial past and its religious legitimacy, all the surrounding oil producing states face, to a greater or lesser degree, similar difficulties and challenges. The theoretical framework developed throughout the study attempts to provide significant insights into the dynamics of a fiscal crisis in rentier states in general, and in Saudi Arabia in particular. The case of Saudi Arabia is considered to be of particular relevance because developments occurring in the Kingdom, the largest economy in the region, will have an important impact on the whole region and, as the largest oil producer in the world accounting for approximately 13 per cent of global output, also on the industrial world.<sup>7</sup>

The majority of studies of rentier states have followed either state-centrist theories, emphasising state autonomy from societal pressures, or have emphasised society-based variables, by highlighting the significance of newly emerging social forces in pressuring governments for change and political development (Krimly, 1999).<sup>8</sup> As the present study will elucidate, the responses of the state and the various societal actors during the fiscal crisis demonstrate that a more integrated approach is needed for an analysis of the political economy of rentier states. The concept of hegemony will provide the main conceptual framework for the analysis of the impact of declining revenues on state-society relations. It is argued that the nature of hegemony in rentier states, the relationship and degree of the consensual or coercive aspect of hegemonic rule, is shaped, and to a large extent determined, by the availability of sufficient material benefits and incentives. The government, to whom oil revenue accrues directly, assumes a central role in the economy and is largely relieved from the need to extract resources from its citizens. Its primary function is to distribute the oil royalties through various channels. These distribution patterns have important implications for the socio-economic structure of the country, for its political institutions and engender the emergence of socio-political alliances that determine the government's margin of manoeuvre in implementing structural reforms in an era of declining revenues.

The central objective of this study is to examine how the decline in oil revenues affects the nature of hegemony, how the mechanisms of power change and affect the relationship between consent and coercion, and to analyse the different intermittent variables, the conditions and factors influencing, facilitating or inhibiting a displacement of a fiscal crisis to a political crisis. It is crucial to understand that a displacement from

the economic to the political realm is not a mechanistic process, and many intermediate variables influence the crisis path and crisis resolution. To avoid presenting the causes, like the economic recession, as immediately operative, while in fact they often operate only indirectly, it is imperative to examine these intermittent variables and their influence. In order to do so, the following issues will be analysed throughout the thesis.

- Socio-political alliances and political structures forged during the pre-oil era and during the oil boom influence the crisis path and the options available to the state in remedying the fiscal difficulties through economic reform measures. The advent of oil revenue, the ever-increasing role of the state in the planning and in the development of the economy had a differential impact on the various sectors of the economy and the population, it created vested interests, engendered new expectations on the state and a new pattern of social mobility. The percolation of oil royalties and the state spending patterns determined to a large extent socio-economic stratification and prevented or postponed the emergence of class-based opposition to the regime while other alternative social forces and civil society organisations remained weak and dependent on the state.

- Not having to tax its citizens, the government is expected to be immune to certain pressures of its citizens on the basis of the principle of 'no representation without taxation'. However, the responses of the various societal forces during the period of declining revenues highlight that the financial autonomy of the state proves to be more a liability than an asset. The loyalties and vested interests established in the oil boom era constrain the government's freedom of manoeuvre in retreating, even partially, from its allocative nature and in implementing economic reforms. The freedom of manoeuvre is also conditioned by the degree to which the interests of the state coalesce with those of the most influential and powerful constituencies like, for instance, the business élite.

- Retreat, even partial retreat, of the state from its allocative function in periods of fiscal crisis requires a re-negotiation of the hegemonic structure, i.e. a re-definition of state-society relations. The government has two strategies, related to the two aspects of hegemony - consent and coercion - either of which carries political risks. The economic policy priorities during the fiscal crisis elucidate whose consent the government seeks to elicit most and at whose expense this occurs. These policies affected the various socio-economic strata to different extent. While the state acts to the advantage of one strategic

constituency it marginalises other social groupings, particularly those that dispose over less direct access to and influence on the ruling élite. This engenders increasing wealth discrepancies, could lead to a crystallisation of class interests and ultimately may engender a breakdown of the consensual aspect of hegemonic rule.

- The measure of inclusion or the degree of exclusion the political system provides and the way interests are mediated and articulated between the various strata of society, ultimately determines the crisis path and the success of the current rulers in maintaining their hegemony. The introduction of political reforms may represent more a tactical move, to 'spread the blame' for policy errors, rather than a genuine commitment to inclusion. It is therefore important to examine in what way the political structure and to what extent the introduction of political reforms responds to the demands of the different constituencies.

- A decisive prerequisite for an escalation of a political crisis or a change in a hegemonic bloc is the transformation of the individual's political awareness, the individual has to experience socio-economic changes consciously and to feel threatened by them in his or her existence. Crises are perceptual phenomena (Waterbury, 1998) and for citizens and observers it is often difficult to distinguish a conjunctural crisis, which is part of a recurrent cyclical pattern of capitalism, from an organic crisis, which is a reflection of inherent structural problems. Regimes often manage to conceal the true nature and extent of a crisis by playing down its seriousness, by controlling the flow of information and restricting the availability of certain key data, which all act to inhibit the individual's awareness formation. The perceptions of the crisis by the state, but also by the various social actors, have a direct bearing upon the fiscal priorities of the state and upon their reactions to them. For discontented citizens it may be easier to blame the all-pervasive state apparatus as the root cause of his or her's economic malaise rather than external market forces that determine the price of the export commodity. The scope of criticism of the government's policies regarding its response to the fiscal crisis and the extent to which the fiscal crisis features in the discourse of the opposition may give an indication of the pressures on the government that could intensify in case of continuing economic difficulties.

For the analysis of the above mentioned issues, the study will proceed as outlined below. The country's impenetrable nature and inaccessibility of certain key data tempted many observers to speculate about the internal state of affairs, which explains the aforementioned contradicting statements that characterise the literature on the country. This veil of secrecy poses also serious problems and sets limits for the researcher, it is, for instance, difficult to examine and support by empirical evidence attitudinal changes in a society where public opinion is restricted and tightly controlled. Government statistics display often huge discrepancies between various reports and the changing accounting formats for the budgets make comparisons between years difficult. Additionally, statistical data is often published with long delays or unavailable for certain years. The analysis of socio-economic changes will therefore focus on the transformation of the role of the state and of key social indicators, like education, health and social mobility and will attempt to discern patterns or trends in income disparities. The thesis is divided into two main parts. The first three chapters will provide the conceptual framework and the comparative historical background of the pre-oil and oil boom era, the following three chapters will focus on the period of declining revenues.

The first chapter commences with a discussion of the different theoretical approaches that have been utilised to analyse the political economy of recessionary periods. As already mentioned, the concept of hegemony in its dual aspects - consent and coercion - will provide the core of the conceptual framework for this study. The notion of hegemony implies that the exercise of state power within a social formation encompasses both consent and coercion. It accords socio-economic factors that shape or determine the transformations within a social formation particular attention, thus provides a valuable tool to analyse the impact of a fiscal crisis on the political economy of a state. The extent of the consensual aspect of hegemony is to a large extent dependent on the availability of material incentives and socio-economic conditions. Economic crises thus tend to have an important impact on the consensual and coercive aspects of hegemony.

The political economy approaches for the analysis of a fiscal crisis concentrate on Western capitalist states, very few analysts have attempted to apply these theories to rentier states and more particularly to the Gulf Arab states. Chapter 1 will show that, while many features of the rentier mode of production overlap with those of the advanced capitalist mode of production, important distinctions exist. These distinctions

of the oil rentier mode of production and the particularities of its articulation or coexistence with other modes of production have a significant impact on the political development of the country and the nature and dimension of crisis. In welfare states and, more pronounced in rentier states, the interference of the government in the economy augments the role of the state as distributor and mediator and also engenders the emergence of interest groups which have a direct bearing upon the interest mediations between society and ruling élite and which condition the government's choices in an era of fiscal stringency. A discussion of the various crisis theorems will explore the different natures and dimensions of crisis tendencies and the factors that influence a crisis displacement from the economic to the political realm. The last part of the first chapter analyses the different mechanisms of interest mediation and representation and highlights their transformation in the light of socio-economic changes. The degree of inclusion and participation that these mechanisms grant to various societal actors determines the nature of hegemony and *ipso facto* the nature of crisis resolution.

In Saudi Arabia contemporary socio-economic and political realities are not only a reflection of the impact of oil, but can be traced back to the social, economic and political conditions of the pre-oil era. When and in what way the state is incorporated into the world economic system has important implications for state formation. The Saudi state, formally established in 1932, evolved and was shaped before the advent of oil rent and before a full-scale incorporation into the international economy. The second chapter will therefore provide a brief overview of the socio-economic and political conditions prevailing in the Arabian peninsula in the pre-oil era. It focuses on the dominant modes of production, the mercantile-tributary and the pastoral-nomadic mode of production, their interdependence, articulation and respective influence on the first (1744-1822) and second (1823-1891) Saudi chieftaincy and then on the factors influencing the emergence and consolidation of the third Saudi realm from 1902 onwards.

The pre-oil era political structures and the Wahhabi movement were heavily influenced by the urban centres and mercantile interests and the co-operation of the House of Saud with the urban élite, became determining factors for the success of Ibn Saud in expanding and solidifying his rule over most of the Arabian peninsula in the twentieth century and ultimately in establishing the Kingdom of Saudi Arabia in 1932. The influx of oil royalties

from the early 1950s onwards dramatically changed the socio-economic characteristics of the country, the economic base of the pastoral-nomadic mode of production gradually disappeared and with it the traditional means of subsistence and surplus extraction. However, some features of the pre-oil era are still traceable in the Saudi polity today, for instance, many of the socio-political alliances created in this period continue to influence interest representation and access to the ruling élite.

In the early years of the oil era oil rent was mostly absorbed by the royal family, tribal subsidies and defence related expenditures. As Chapter 3 will demonstrate, income inequalities and rapidly changing living conditions, particularly among the oil workers, caused tensions which, fuelled by external support, resulted in strikes and internal unrest. The ensuing crisis and an internal Al-Saud power struggle led to the deposition of King Saud and to the ascendance of King Faisal who initiated large-scale development schemes aimed at redressing some of the inequalities and at improving the living conditions of the Saudi population. Since 1970 five-year development plans provide the basis for economic development and the distribution of oil revenue, giving the ruling family the means to direct and shape the pace and scope of the country's socio-economic development. The chapter will pay particular attention to the government's distribution measures, their effects on the economic structure as well as on the various social groupings and patterns of social mobility.

With the advent of oil the composition of the state's revenues changed, its extractive capabilities gradually eroded and oil became the principal source of income and the main component of GDP. The government came to dominate the economy and state spending became the primary motor of the country's economic expansion. Concomitant with the expansion of the state's functions and intrusion into more and more realms and through the various distributive channels of oil wealth, new social groupings crystallised and new socio-political alliances emerged or existing ones were cemented. Potentially disruptive effects of urbanisation and unequal development were mitigated by the state's generous welfare provisions and many challengers and potential opponents to the regime could be acquiesced or co-opted by pecuniary means. Authority became more and more centralised and the rule of the House of Saud more consolidated. The above mentioned changes and the creation of new social groupings and political loyalties have important implications for state-society relations and the way interests are mediated, which, as the



following chapters will show, can pose problems in periods of fiscal crisis and can seriously limit the state's capacity in introducing economic reforms.

Relying heavily on oil for its revenues, the Saudi state is precariously vulnerable to the vagaries of the international oil market. In the mid 1980s oil prices fell dramatically, precipitating a series of budget deficits. While the drop in oil prices constitutes the main reason for the fiscal difficulties of the Saudi state, other factors, like high defence expenditures, later also the costs of 'Operation Desert Storm' and an increasing population contribute significantly to the pressures on the treasury. Chapter 4 will discuss some of the causes of the fiscal crisis and then concentrate on the government's reaction to it. In the early phase of the economic downturn the government hesitated to introduce economic reform measures, resorting instead to drawing down its foreign assets and later to domestic borrowing. As mentioned above, this initial response demonstrated the perception of the economic downturn as a passing phenomenon, one that could be remedied as soon as oil prices picked up again. A perception that affects the government's fiscal priorities and that is only gradually replaced by a more realistic approach.

The emergence of new social groupings during the boom years engendered the creation of political loyalties that inhibit the government in reducing its allocative nature and in moving beyond rentierism. As a result, expenditure and subsidy cuts are only reluctantly initiated and measures to introduce fees and indirect taxes have met the open resistance of powerful constituencies. Special attention will be given to an examination of how the recession affected the various sectors of the population and the economy. These variations demonstrate the need for consensus for the introduction of economic reforms between the government and some segments of the population, particularly the business élite. The fiscal policies affected certain groups of the population more than others and led to increasing wealth discrepancies, a process that in the long term leads to the emergence of class-based interests and ultimately to the crystallisation of classes.

Another process that accelerated during the recession was the transformation of the role of the state as mediator between the international market forces and the Saudi citizen. Without its foreign assets, the government can no longer provide the 'safety cushion' which, until now, mitigated the effects of the exposure to the international market forces

for the Saudi citizens. This development is further aggravated by an increasing incorporation of the Saudi economy into the globalised economy.

Chapter 5 will deal with the political implications of the fiscal crisis. The repercussions of the fiscal crisis are not the only pressures on the Saudi government, they coincide with regional developments, the impact of the Kuwait crisis and the increased exposure to foreign media and travel which all shape and transform the attitudes of the population and their demands on the government. The chapter analyses the demands, the agenda and interests of the various social groupings, the mechanisms and channels they use to express their demands and how these groups relate to each other and if, when and where their interests coalesce. It also looks at how and to what extent the fiscal crisis could represent an opportunity for Saudi women, a potentially significant section of the workforce, in enhancing their role in public life.

For the successful implementation of economic reforms the government is compelled to re-negotiate its pact with society. It can opt for a strategy of inclusion and thus strengthen the consensual aspect of its hegemonic rule, or it can opt for a strategy of exclusion. In its last part Chapter 5 examines the scope of the government's political reforms and evaluates how they may respond and to what extent they satisfy the demands of the various constituencies. This will then provide the background for the final chapter, which focuses on the emergence and escalation of a more vocal opposition.

The concluding chapter of this study will examine the scope of the opposition groups and their demands in the historical and institutional context and with regard to global events that have often influenced the nature and orientation of dissent in Saudi Arabia. Particular attention will be given to the discourse of the opposition regarding economic issues, as this may provide an indication to what extent the Saudi opposition is exploiting the fiscal crisis as a rallying point, and whether a continuation of the fiscal crisis is likely to increase the support of these groupings.

The margins of political dissent have conditioned the nature and extent of political expression in Saudi Arabia and have indirectly paved the way for the rise of political Islam. Currently Islamic critics constitute the most vocal opponents of the House of Saud. However, the challenges that the House of Saud is confronted with are multi-

faceted and include a 'challenge from within', i.e. from intra-royal family struggles of rivalling factions, a challenge that is likely to become more prominent in the case of the death of the current ruler and over the issue of his succession. The chapter then proceeds with a short section on the potential challenges posed by the country's security apparatus and the Kingdom's efforts to balance internal and external security threats. Historically the Saudi ruling élite and in particular the *ulama* regarded the Saudi Shi'a community as a potential fifth column supported by foreign powers. On several occasions the Saudi Shi'a have expressed open, sometimes violent, opposition to the rule of the Saudis. Their demands have focused on the cessation of any discriminatory practices and their marginalisation within the Saudi polity. For the interest of the present study, the analysis of the Shi'a community's opposition will highlight the importance of socio-economic factors. With improved relations between Saudi Arabia and Iran and with the amelioration of their material well-being and a more conciliatory approach towards them, the Saudi Shi'a community and the Saudi regime seem to have found a *modus vivendi*.

The final section of Chapter 6 examines the rise of political Islam in Saudi Arabia particularly in the aftermath of the Kuwait crisis. Challenging the religious legitimacy of the regime and its alliance with the West, Islamic dissent seems to pose the most dangerous threat to the House of Saud. Individual dissenting voices that later on crystallised into several opposition movements began to openly criticise the government's invitation of Western forces to defend the 'holy Saudi soil', to criticise the *ulama* for their acquiescence and approval of it, economic issues, however, do not constitute the core of their criticism. The government's reaction to the opposition oscillates between co-optation, condemnation and for the most vocal critics repression and imprisonment. These tactics seem so far to have prevented an escalation of the Islamic opposition, the majority of the movements are based abroad, operate from exile and their support inside the Kingdom seems rather limited. Arguably, the greatest danger to the hegemony of the Al-Saud at the moment is not the Islamic opposition but the ruling élite's hesitation to reform its rentier nature and to re-negotiate the hegemonic structure of the country.

## NOTES

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<sup>1</sup> For Islamic terms see Netton, 1992.

<sup>2</sup> Speech on the occasion of a GCC summit in December 1998, quoted in FT, 11 December 1998.

<sup>3</sup> The budget for 1999 was based on a price of oil (brent blend) of \$10/b. The actual average, however, amounted to an average of \$14/b which led to a significant reduction of the anticipated budget deficit. Every drop of \$1 per barrel of oil is estimated to reduce Saudi Arabia's revenues by approximately \$2.5 billion per year. Details and budgetary figures can be found in Chapter 4 and the Statistical Appendix.

<sup>4</sup> See for instance Graham and Wilson (1994), Aburish (1994), Graham (1993), Schechterman (1986).

<sup>5</sup> For instance, Oxtenstierna and Anderson (1992) and to some extent Fandy (1999).

<sup>6</sup> See Gwenn Okruhlik (1992) for private business-government relations in Saudi Arabia and Chaudhry (1997) for a comparative analysis of business-government relations in Saudi Arabia and Yemen. For more general studies on the political economy of declining revenues see Chapter 6 in Krimly (1993). With the exception of Chaudhry (1997), Okruhlik (1999) and an article by Krimly (1999), most studies focus on the boom and bust years until the beginning of the 1990s only.

<sup>7</sup> Saudi Arabia is the largest oil producer in OPEC, representing 30 per cent of its output in 1998. At the end of 1997 its total reserves were estimated at 261.5 billion barrels, amounting to approximately one quarter of the world's proven oil reserves. At the current level of production, reserves are believed to last for about 80 years. For comparison, the US produces 10.9 per cent of total output, Russia 8.8 per cent. However, their exports figures are much lower due to high internal consumption (EIU Country Profile, 1999-2000, p.31).

<sup>8</sup> For the state-centred approach see for instance Skocpol (1985) and Luciani (various years), for those who emphasise the predominant role of societal forces see Heller and Safran (1985) or Abir (1993).

## **Chapter One**

### **CONCEPTUAL FRAMEWORK**

This chapter aims to provide a conceptual framework that will facilitate a better understanding of the political economy of fiscal crisis. It will focus on an analysis of various theoretical concepts that have been utilised to examine the impact of recessionary periods on the socio-economic and political dynamics of state-society relations. Most theoretical frameworks investigating the changes in the bases of state power and state-society relations during a fiscal crisis have concentrated on Western advanced capitalist states. Only very few studies have attempted to develop conceptual frameworks for the analysis of the socio-political repercussions of fiscal crisis in the oil rentier states of the Arabian peninsula.<sup>1</sup> While many of the characteristics associated with advanced capitalist states can be found in states where the rentier mode of production predominates, significant distinctions exist. These distinctions have, as will be shown later and throughout the thesis, an important bearing upon the crisis path.

Traditional Marxist theory assumes a direct relationship between the economic base and political structure (superstructure) and contends that an economic crisis will translate into a political crisis. The growing interaction and interrelationship of the economic base and superstructure evidenced in the advanced form of capitalism and also in rentier states led to the development of new paradigms arguing that many intermittent variables influence the economic-political relationship and ultimately determine the dynamics of crisis. A fiscal crisis thus does not have to translate into a political crisis, it can be averted or at least postponed indefinitely. Crisis resolutions can take various forms depending on many factors, opposing or competing interests can be co-opted, accommodated or repressed and all developments have to be examined in the regional and international context.

No theory of social transformations can take account of the multiple factors influencing the dynamics of change, particularly in crisis periods. However, by illustrating the relationship between the consensual and the coercive aspect of hegemony and by examining the changes in the role of the state, the transformation of social mobility patterns and the mechanisms of power and interest mediation, it is nevertheless possible

to identify factors that have an important impact on the transformations in a hegemonic structure occurring during times of economic difficulties and that influence the translation of an economic crisis to a political crisis.

Changes in the bases of state power will be analysed in dialectical, not in dichotomous terms, by emphasising the dynamic interaction of the economic, political and social forces involved in the process of change. The transformation of the dynamics of hegemony in its dual aspects - consent and coercion - will provide the main framework for the analysis of how socio-economic factors shape and determine the role of the state and its relation to society. While the notion of legitimacy stresses the importance of congruence of values and normative acceptance between rulers and the ruled, the concept of hegemony implies that state power in a social formation is based on consent and coercion. The degree of coercion necessary to maintain hegemony depends not only on the monopoly of force but also on socio-economic factors and the availability of material incentives.

The first section of this chapter will, after showing the relationship between the concept of legitimacy and the concept of hegemony, provide a discussion of the internal dynamics of hegemony, the role of the state<sup>2</sup> and the importance attributed to ideology, culture and civil society in consolidating hegemonic rule. The next section will focus on the impact of crises in their different dimensions and manifestations on the consensual and coercive aspects of hegemonic rule. It commences with a short analysis of the Marxist and neo-Marxist concepts of social change, its explanatory deficiencies and gaps and then proceeds with a discussion of Antonio Gramsci's perception of hegemony and of the nature of crises. To understand whether an economic crisis can translate into a political crisis it is essential to look at the differences between a 'conjunctural' crisis that is part of the cyclical nature of capitalism in which economic recessions and booms occur and follow each other, and a structural or 'organic' crisis that has the potential to lead to the erosion of a system and the replacement of a hegemonic bloc.

The second part of this chapter will then provide an overview of the crisis theorems in capitalist states by James O'Connor, Claus Offe and Jürgen Habermas. In welfare states the government's interference in the economic base has magnified the role of the state as distributor and mediator between the different economic sectors and the various strata of

society. Changes in the economic base, like an economic downturn that lead to a reduction in the state's allocative functions, thus tend to have reverberations in the political and social realm. As a result, the welfare state is prone to contradictions and crisis tendencies and is caught between a demand for increased government expenditures and rising expectations and a limited capacity to provide for these demands. In case government expenditures continue to exceed revenues over a prolonged period it eventually generates a 'fiscal crisis of the state' (O'Connor, 1973). The state's intrusion and regulative functions within the economy and society also engendered the emergence of interest groups and of corporatist-type arrangements which alter the mechanisms of interest mediation between society and ruling élite. Consequently the advanced capitalist social formations, as Jürgen Habermas argued, are confronted with various crisis tendencies. This section will conclude with a discussion of these tendencies and the conditions and prerequisites for the displacement of a crisis from the economic to the political realm.

Many features of the advanced form of capitalism, especially the increased state intervention in the economy and society, can be compared to the rentier mode of production prevalent in contemporary Saudi Arabia. However, the analysis of the socio-economic and political realities of Saudi Arabia becomes more complex because several modes of production continue to coexist and the establishment of the Saudi state and its political system predates the influx of oil rent and its incorporation into the global economic system. The subsequent section of this chapter will therefore examine the specificities of the oil rentier mode of production and its articulation with other modes of production. The state, as principal recipient of oil rent, shapes and creates through its intervention in the economy and the distribution of oil wealth socio-economic alliances and *ipso facto* determines social stratification. The direct accrual of resources to the ruling élite gives the state fiscal autonomy, which, as will be shown, does not necessarily translate into state strength or the ability to implement reforms in periods of declining economic fortunes.

The centrality of the state, sometimes also referred to as the 'primacy of the political', in the rentier mode of production, makes a closer examination of the role of the state and of the mechanisms the ruling élite utilises to exercise its hegemony crucial to the understanding of the dynamics of crisis. It is often argued that in an era of fiscal

stringency a certain amount of inclusion of the population in the political and economic affairs of the state is crucial to the maintenance of hegemony. To resolve an economic crisis it may be necessary to initiate structural reforms that necessitate the retreat of the state from its rentier nature, which, in turn necessitates a re-definition of the relationship between state and society and the generation of consent based on inclusion.

The last part of this chapter examines how various forms of interest mediation and representation can generate consent for a regime. The emphasis will be on the transformation of these mechanisms in the context of socio-economic changes and the place civil society could, if existent, assume in such a transformation. Any changes in the hegemonic formation will be contingent on the margins of political dissent allowed by the government. On the one hand, an exclusionary strategy that allows no space for the expression of divergent ideas inhibits the emergence of a counter hegemonic bloc but, on the other hand, it also increases the importance of the coercive aspect of hegemony. Once the coercive aspect of hegemony dominates state-society relations over a prolonged period of time, a political crisis seems inevitable.

## **DEFINING HEGEMONY - BETWEEN CONSENT AND COERCION**

Hegemony becomes the key concept in understanding the very unity existing in a concrete social formation (Laclau and Mouffe, 1985, p.7).

Many social scientists have emphasised the importance of a legitimate order for the maintenance of long term stability within a social formation. The concept of legitimacy focuses on normative acceptance and congruence of values between the ruling élite and the population, hence tends to neglect the significance of socio-economic factors in explaining the stability of a social formation. While in many cases normative acceptance of a regime or a coalescence of values due to a common religion or tradition may exist, instrumental or pragmatic acceptance influenced by socio-economic factors or the lack of a credible alternative, are often determinant for the consolidation and stability within a social formation. As will be shown, the concept of hegemony takes socio-economic factors into account that may influence the attitude of the mass of the population in favour of a regime, it thereby transcends the notion of legitimacy. It encompasses both consensual and coercive aspects of state power and is characterised by a complex



network of interdependencies between political, social and economic institutions. As will be seen later on, this network's efficiency and cohesion partly depends on the availability of resources which, in case the resources are becoming scarce, for instance due to a decline in economic fortunes, engenders a change in the foundations of hegemonic rule.

Max Weber discussed the importance of a legitimate order for conflict-management and long term stability (Weber, 1964). He maintained that, although the state disposes of the monopoly of legitimate physical force, rulers seek to organise their exercise of power by resorting to a legitimating discourse: "[e]xperience shows that in no instance does domination voluntarily limit itself to the appeal to material or affectual or ideal motives as a basis for its continuance. In addition every such system attempts to establish and to cultivate the belief in its legitimacy".<sup>3</sup> According to Weber there are three main 'ideal' types of political legitimacy: tradition, the recognition of the legality of the rulers, and the personality of the leader, i.e. charismatic leadership. Michael Hudson stressed the consensus aspect in Weber's theory and argued that the degree to which the government is considered as congruent and compatible with society's fundamental beliefs determines the cohesion of society (Hudson, 1977, pp.17-18). Legitimacy of a regime has its roots in a set of shared beliefs or normative order. According to Jürgen Habermas:

If binding decisions are legitimate that is, if they can be made independently of the concrete exercise of force and of the manifest threat of sanctions, and can be regularly implemented even against the interests of those affected, they must be considered as the fulfilment of recognized norms. This unconstrained normative validity is based on the supposition that the norm could, if necessary, be justified and defended against *critique*. And this supposition is itself not automatic. It is the consequence of an interpretation which admits of consensus and which has a justificatory function, in other words, of a world-view which legitimizes authority (Habermas, 1975, p.101).

Ikenberry and Kupchan contended that acceptance of hegemonic rule is realised through the transmission of a normative system and value orientations as well as through the provision of material incentives. Normative acceptance, i.e. the internalisation of the justification of the 'superiority' of the ruling class or hegemonic bloc, is thus complemented by pragmatic acceptance, i.e. consent due to the perception that no realistic alternative exists and due to the provision of material benefits. While normative congruence is desirable and states attempt to reinforce common values, through, for

example, emphasising their traditional and religious role or through inculcating their values by various socialisation agents, the extent of normative acceptance is difficult to measure. It is often impossible to distinguish which influences, the material incentives or the alteration of beliefs and norms, are more important for consenting to a particular regime at a particular time (Ikenberry and Kupchan, 1990). Normative acceptance, however, may become particularly crucial for the maintenance of hegemony in times of economic crises when consent of the masses based on the provision of material incentives diminishes.

### **Hegemony - The State and Civil Society**

Hegemony in its 'ideal' form is based on active consent and on a collective will in which different groups unite and rule is exercised indirectly. The ruling class or group exercises moral and intellectual leadership that goes beyond its own narrow and immediate interests and makes compromises with several allies who come to constitute a social bloc of forces ('historic bloc' in Gramsci's terminology). In a social formation this bloc provides the basis of consent for the incumbent regime (Bottomore, 1985, p.228). Hegemonic rule is inextricably linked to the concept of 'integral state', whereby the state and civil society are interrelated and share power. Hence the state is not the sole source of power in a social formation. According to Gramsci, the state "includes elements which need to be referred back to the notion of civil society (in the sense that one might say that State = political society + civil society, in other words, hegemony protected by the armour of coercion)..." (Gramsci, 1996, p.263). Gramsci perceived the state as "the entire complex of practical and theoretical activities with which the ruling class not only justifies and maintains its dominance but also manages to win the active consent of those over whom it rules" (Gramsci, 1996, p.244).

In exercising social control a dominant social group has a dialectical strategy at its disposal: it can use coercive control through its repressive mechanisms and consensual control through the institutions of civil society. Consensus and coercion are often combined and both state and civil society institutions utilise them. Thus there are two superstructural levels, civil society (the ensemble of private organisms) and political society (i.e. the state organisms).<sup>4</sup> For Gramsci only:

**the basic trajectory of human history** is explained by the development of productive forces. The specific course of any given society, however, may vary in accordance with the dynamics of its own individual situation...The economic base sets, in a strict manner, the range of political outcomes, but free political and ideological activity is ultimately decisive in determining which alternative prevails.<sup>5</sup>

Gramsci breaks with the reductionist Marxist view of ideology that places ideology in the superstructure and considers it a reflection of class antagonism determined by the economic base. Instead, Gramsci conceived ideology as “an organic and relational whole, embodied in institutions and apparatuses, which welds together a historical bloc around a number of basic articulatory principles. This precludes the possibility of a superstructuralist’ reading of the ideological” (Laclau and Mouffe, 1985, p.67). Political subjects are considered ‘collective wills’ rather than classes and the ideology of the hegemonic class is not necessarily class based but an area of struggle. Culture in the Gramscian perspective can be effectively used as a tool for achieving and maintaining hegemony. Social and political power is related to an efficiently functioning ideological state apparatus where various socialisation agents reinforce and propagate the values and norms of the dominant group.

For Gramsci the success of a hegemonic bloc in generating consent depends to a large extent on the evolution of civil society within a social formation. The role civil society is allowed to assume determines whether the coercive or the consensual aspect of state power is predominant. To illustrate this idea, Gramsci compared the East<sup>6</sup> and the West:

in the East the State was everything, civil society was primordial and gelatinous; in the West, there was a proper relation between State and civil society, and when the State trembled a sturdy structure of civil society was at once revealed. The State was only an outer ditch, behind which there stood a powerful system of fortresses and earthworks... (Gramsci, 1996, p.238).

For the exercise of power in the ‘West’, the consensual aspect was predominant in relation to the coercive aspect of hegemony, in the ‘East,’ due to the weakness of civil society, hegemony could only be achieved through an emphasis on the coercive aspect (Ransome, 1992). However, one has to be careful not to follow the Orientalist and Marxist conception of a stagnant East and a dynamic West. The last part of this chapter will show in more detail different forms of interest mediation in the context of the

Arabian peninsula and the extent of inclusion or exclusion they provide and attribute to society.

Institutions of civil society, Gramsci argued, can be important factors in the perpetuation of hegemony of a particular class or group but at the same time they can give a subordinate class or group the means and space to establish a counter hegemonic bloc. Which factor becomes predominant depends to a great extent on the scope of 'public space' and the openness of the political system. Hegemony takes account of changing interests and demands and absorbs criticism, but only to the extent that the ultimate long-term interest of the dominant class can be preserved. In this context it is important to bear in mind that, as Louis Althusser argued: "[i]t is essential to say that for their part the Ideological State Apparatuses function massively and predominantly by ideology, but they also function secondarily by repression, even if ultimately, but only ultimately, this is very attenuated and concealed even symbolic"(Althusser, 1971, p.138). The state, although controlling the coercive apparatus, does not have the monopoly of coercive force. Institutions of civil society can, albeit only indirectly, exert coercive force, while the state can also exert ideological or consensual control. Femia contended that: "certain hegemonic institutions of civil society, such as political parties and organised religion, are transmuted, in specific historical situations and periods, into constituent components of the state apparatus".<sup>7</sup> Coercive force in this context does not necessarily imply physical force: gender or religious discrimination in public life, education or work also represent aspects of social coercion. Often a religious establishment that is closely linked to the rulers provides a 'perfect' means to exert societal coercion through, for instance, propagating a regime's values or through keeping dissenters in line by brandishing any deviance as a threat to the faith or tradition. A selective adherence to religion, the control of the educational apparatus as well as strict press censorship and narrow margins of dissent frequently prevent or inhibit the emergence of a counter hegemonic bloc.<sup>8</sup>

Hegemony is achieved and perpetuated through compromises, reforms and bargaining between different classes or groups, by different institutions, social relations and ideas. It has to be reproduced continuously in order to defend itself against challenges and must react to and absorb criticism. As Ralph Milliband stated: "hegemony is actually a process of struggle, a permanent striving, a ceaseless endeavour to maintain control over the hearts and minds of subordinate classes".<sup>9</sup> The effectiveness of socialisation mechanisms

provides a key element in the understanding of the emergence, functioning and the transformations within a hegemonic system (Ikenberry and Kupchan, 1990, p.315).<sup>10</sup> The importance of these mechanisms become much more important for the hegemon in critical situations, like economic recessions or international conflicts, when the hegemon's coercive or economic capacities do no longer provide an explanation for the perpetuation of the hegemonic order.

The nature of hegemony, its consensual and coercive base, changes in the course of the evolution of the state through the expansion of the state apparatus and its intervention in the economy and society. Ideal hegemony, where civil society (area of consent) is fully developed and the political society (area of constraint and coercion) is limited, can develop only fully through a continuous expansion of consent. Buci-Glucksmann argued that, "[t]he more authentically hegemonic a class really is, the more it leaves opposing classes the possibility of organizing and forming themselves into an autonomous political force" (Buci-Glucksmann, 1980, p.57). Consent can be generated by the political, administrative and ideological state institutions through various practices: by institutionalising participation and accountability of the state, by relying on ideological mechanisms to propagate a normative system in accordance with the regime and by relying on religious discourse, credentials and legitimation. In a regime that does not leave space for civil society to form and organise itself freely and that does not reflect a cohesive alliance of social groups and their aspirations, the consensus aspect remains limited. The bases of political power thereby remain weak and have to be complemented by force, physical force or more attenuated through indirect ideological coercion. Alternatively, the state can also generate pragmatic acceptance/consent by the provision of material incentives. However, this form of consent is contingent on the availability of resources. Once "hegemony becomes simply the backing of violence, or even worse, is only obtained by violence... this hegemony is in fact no longer assured" (Buci-Glucksmann, 1980, p.56) and the escalation of a political crisis is inevitable. How this consent can be generated through various mechanisms of interest mediation will be shown in the last part of this chapter.

## **Hegemony in Times of Crises**

Usually a crisis emerges once a disequilibrium occurs within a social formation. According to Max Weber political order is ultimately only vulnerable to crises when its monopoly of force erodes (Held, 1989, p.146). For the purpose of this study, Weber's understanding of crises as the result of an erosion of the monopoly of force is too limited. It will be argued that one can speak of a crisis if the capacity of the state to reproduce itself erodes and the coercive aspect begins to dominate state-society relations, i.e. if the state's monopoly of force (including politically and economically exclusionary tactics) is excessively utilised to maintain hegemony.

Karl Marx was the first to develop a concept of system crisis in capitalist societies, emphasising that class based societies are characterised by latent social conflict, contradictions, divisions, inequalities and struggles. These contradictions are epitomised in capitalist societies and ultimately prepare the way for radical change and the eventual transcendence into a class-less society. He explained the crisis path in terms of economic laws of motion and argued that social and political (superstructural) change is determined by the mode of production (economic base). Classic Marxist approaches are preoccupied with the analysis of the economic structure of social formations, human beings thereby tend to be reduced to a set of alternative reactions to particular forces and relations determined by the economic base. Bryan Turner argued that a state's form and function cannot be reduced to the epiphenomenon of economic relations (functionalist view) nor can the state be considered a direct instrument of a socially dominant class (instrumentalist view). To explain the complex forces within society, especially when studying transformations, an approach is needed that avoids determinism in either form - economic or cultural - and thus does not give either sub-system an all-determining force (Turner, 1984).

In his analysis Marx neglected the role the state assumes in relation to society<sup>11</sup>, which has prompted some neo-Marxist scholars, such as Althusser, Balibar or Poulantzas, to focus more on the role of the state and to abandon the notion that the superstructure is a direct reflection of the economic base. They developed a concept in which base and superstructure form an integral part of the capitalist mode of production and the economic, political and ideological levels (or sub-systems) constitute an interdependent 'holistic' structured totality of the mode of production in which the superstructure (the

political and ideological level) is no longer solely reflecting changes in the economic base. Nicos Poulantzas, for example, argued that classes cannot be regarded as forces independent of the state that are able to manipulate it, hence the state cannot be considered a passive instrument of class rule. Instead, the political leverage of classes or class fractions is contingent on the overall institutional structure and the effects of state power (Jessop, 1990). Their approach, however, did not transcend the economic determinism characteristic of Marx's theory since they continued to argue that it is the economic structure that determines which of the three (political, ideological, economic) levels will prevail. As Bryan Turner pointed out, many theoretical works of neo-Marxists are directed against various forms of economic reductionism rather than against determinism *per se* (Turner, 1984). The concept of hegemony by emphasising the complex interdependency of the political, social and economic realm and by including culture, ideology and socialisation overcomes some of these limitations.

In the analysis of crises, it is crucial to distinguish between a partial crisis and a total collapse that leads to the transformation of a social formation. The first type of crisis is a recurring feature in the history of capitalism where in a cyclical pattern economic booms are followed by recessionary periods and the system recovers after a certain period. The second type of crisis refers to "the undermining of the core or organisational principle of society; that is, to the erosion or destruction of those societal relations which determine the scope of, and limits to, change for (among other things) economic and political activity" (Bottomore, 1995, p.118).

Gramsci's perception of crisis is discussed little in the literature, however, it provides an interesting insight into the nature of crises and the difference between a recurrent, 'conjunctural' crisis and a permanent 'organic' crisis with transformative potential. Within his analysis of crisis he also dealt with the displacement of a crisis from the base to the superstructure, i.e. from the economic to the political realm, an idea that was later developed by Jürgen Habermas. Gramsci emphasised the importance of distinguishing between two different forms of crisis expressions: 'organic phenomena' and 'conjunctural phenomena'. The latter "do not have any very far-reaching historical significance; they give rise to political criticism of a minor, day-to-day character, which has as its subject top political leaders and personalities with direct governmental responsibilities". 'Organic phenomena', on the other hand, are a permanent feature and:

...give rise to socio-historical criticism, whose subject is wider social groupings- beyond the public figures and beyond the top leaders....A crisis occurs, sometimes lasting for decades. This exceptional duration means that incurable structural contradictions have revealed themselves (reached maturity), and that, despite this, the political forces which are struggling to conserve and defend the existing structure itself are making every effort to cure them, within certain limits and to overcome them. These incessant and persistent efforts (since no social formation will ever admit that it has been superseded) form the terrain of the 'conjunctural', and it is upon this terrain that the forces of opposition organise (Gramsci, 1996, p.178).

In case of an economic crisis, Gramsci maintained, 'relations of forces' are transformed while moving through three main moments and levels. During this evolution political awareness crystallises and moves from the economic to the political level. The evolution of the consciousness from the particular-economic level to the universal-political is related to the transition from structural to superstructural forms of practice. Gramsci uses the term 'catharsis', "to indicate the passage from the purely economic (or egoistic-passional) to the ethico-political moment, that is the superior elaboration of the structure into the superstructure in the minds of men" (Gramsci, 1996, p.366).

During the first moment of a crisis relations of social forces remain closely tied to the structure. By analysing the relations of forces at this level one can discover whether the necessary preconditions for a transformation of the society exist. According to Gramsci the transformation of the individual's consciousness is a prerequisite for the successful displacement of one historical bloc by another. However, the development of political practices, popular participation and external influences can mitigate contradictions and prevent them from escalating thus can have an important impact on the crisis path (Gramsci, 1996, p.178). Similarly, Jürgen Habermas argued that it is important to distinguish between the lack of consensus between society and rulers and a limited consciousness regarding the 'true' nature of a political system. Public interest tends to focus more on a system's output and is generally lacking when it comes to input, i.e. the sharing of political responsibilities and active participation in the decision-making process. Thus in this stage it is difficult to determine whether consensus between the ruling élite and the masses results from normative integration and congruence of values or a general tendency of depoliticisation of the population (Held, 1989).



Gramsci termed the second moment of crisis the moment of “relation of political forces; in other words, an evaluation of the degree of homogeneity, self-awareness, and organisation attained by the various social classes” (Gramsci, 1996, p.181). This phase is divided into three main stages, reflecting the transformation of the collective political consciousness: the economic-corporate, the economic-solidaristic and the universal-solidaristic stage. Interest articulation during this stage occurs within the parameters of the existing state structures. The third moment marks a clear shift in the evolution of political consciousness and paves the way for the replacement of the old historical bloc, “one becomes aware that one’s own corporate interests... transcend the corporate limits of the purely economic class, and can and must become the interests of other subordinate groups too. This is the most purely political phase, and marks the decisive passage from the structure to the sphere of the complex superstructures” (Gramsci, 1996, p.183).

This concept implies that structural contradictions within a mode of production can only be solved through a combination of institutional changes in the economic sphere as well as in the political sphere which alter the hegemonic structure and expand the consensual aspect of hegemony. This argument is also the core of Habermas’ concept of displacement of crisis which will now be the focus of discussion.

## **THE WELFARE STATE IN CRISIS**

In the advanced form of capitalism developments in the economic sphere become functions of governmental involvement and thereby subject to political struggles “due to the introduction of elements of the superstructure into the base itself, the classical dependency relationship of politics to the economy was disrupted” (Habermas, 1974, p.237). Politics is no longer regarded as a purely superstructural phenomenon. The interrelationship between economic base and superstructure and the growing importance of what the ‘Frankfurt School’ called ‘culture industry’<sup>12</sup> necessitated the development of new paradigms that explain the dynamics and contradictions of the state’s role and its relations to society. The diversification of the state’s tasks as mediator, distributor and regulator, also very obvious in the rentier states, as detailed later, encouraged the expansion of a bureaucratic state apparatus which, in turn, created social groupings and

political loyalties that limit the state's margin of manoeuvre and that ultimately change the imperatives of crisis management.

### **Contradictions of the Welfare State**

James O'Connor first used the concept of 'fiscal crisis of the state' to explain the growing tendency for government expenditures to exceed state revenues in the context of the post Second World War era in the United States. He argued that the advanced capitalist state is trapped between two contradictory imperatives: maintenance of the accumulation process and legitimation, i.e. between the need not to undermine the process of private accumulation and profit maximisation and the need to intervene in the economy in order to fulfil the increasing demands of the population. This dilemma eventually led to a situation of crisis in public finances and increasing inflationary tendencies because "society's demands on local and state budgets seemingly are unlimited, but people's willingness and capacity to pay for these demands appear narrowly limited" (O'Connor, 1973, p.1). These two contradictory functions of the welfare state are reflected in the elaboration of the state budget and economic policies which aim to reconcile them. O'Connor observed that: "the volume and composition of government expenditure and the distribution of tax burden are not determined by the laws of the market but rather reflect and are structurally determined by social and economic conflicts between classes and groups" (O'Connor, 1973, p.2).

He distinguished between two different types of state expenditure - 'social capital' and 'social expenses' - reflecting the two main functions of the capitalist state: accumulation and legitimation. 'Social capital' consists of, for instance, state investments in infrastructure providing for a continuously favourable climate for capital accumulation. 'Social expenses', on the other hand, like education or social security, are aimed at assuring social stability or harmony and thereby serve as a tool in the legitimating discourse (O'Connor, 1973, pp.97-145). O'Connor maintained that the accumulation of social capital and expenses is marked by contradictions which enhance crisis tendencies at the economic, social and political level and traced several reasons for this. First, while the state continues to socialise more capital costs, social surplus is appropriated privately. Secondly, the fiscal crisis is accompanied and intensified by the appropriation of state power for particularistic ends. Groups evolve that demand expenditure for social

services and that begin to compete for a share through political struggles. As accumulation of social capital and social expenses occurs within a political framework, state services and projects tend to overlap and produce waste, especially in the bureaucratic apparatus. This dual nature of state expenditure, characteristic of capitalist welfare states, is evident in various levels of economic policies in rentier states, as Chapters 3 and 4 will demonstrate. In many rentier states the concern for social harmony and legitimation takes precedence in the economic policy making process, sometimes even regarding diversification efforts of the economic base and particularly regarding liberalisation policies.

Claus Offe contended that by providing welfare services the advanced capitalist state has been able to limit and mitigate class conflict and *ipso facto* was able to find a solution to societal contradictions, i.e. class divisions, on the political level and thereby averted the escalation of a political crisis (Offe, 1984, pp.60). A regime's concern of providing social services is a reflection of the need to portray an image of pursuing the general interest of the whole society and hence is crucial to its political legitimation. Welfare policies are instrumental in maintaining the dominance of the existing order, however, the policies do not automatically serve the interests of the capitalist class. What is essential is the interest of the state, which does not derive from an alliance of a particular class with the government nor from the pressure of a class on the state but results, "from an institutional **self-interest of the state** ...the state must be interested - for the sake of its power - in guaranteeing and safeguarding a 'healthy' accumulation process upon which it depends". Consequently the state, "does not defend the interests of one class, but the **common** interests of all members of a **capitalist class society**" (Offe and Ronge, 1975, p.140, emphasis in original).<sup>13</sup>

The role of the welfare state is not limited to the distribution and provision of social services, more important is its function as regulator or co-ordinator between different sub-systems and social groupings or classes and the organisation of the processes of socialisation and capital accumulation. It is primarily the task of the administrative apparatus to correct and regulate the processes of socialisation by transferring resources to various groups which may have suffered from the market exchange processes. This regulating and co-ordinating function becomes all the more important in periods of economic crisis when the mediation of the government between the social groupings

becomes crucial to the maintenance of hegemony. As David Held pointed out, Claus Offe has provided useful insights into the constraints of state planning and the problems related to the efficiency of the bureaucratic apparatus in promoting aims which are beyond its competence. Bureaucracies operate along invariant procedures, narrowly defined goals and within strictly defined areas of responsibility which influence their flexibility and rationality responses to demands from outside (Held and Krieger, 1983, p.487). Concomitantly, the lack of co-ordination between the different sections of the bureaucratic apparatus seriously inhibits the efficiency of state planning, which becomes characterised by constant fluctuating patterns of intervention, withdrawal and compromises (Offe, 1984, p.20).<sup>14</sup> The government pursues policies that not only complement market mechanisms but also replace them, confronting the administration with a number of problems. Often the bureaucratic apparatus is incapable of evaluating the complexity of the political ramifications of its actions, hence the state is forced to selectively favour the most strategic groups whose support is particularly important for the government. The representatives of these powerful groups increasingly resort and rely on informal, extra-parliamentary negotiations with the government (Held, 1983, p.489 and Offe, 1994, pp.22-27). A bargaining process between the government and the élites is thus semi-institutionalised in corporatist-type mechanisms that aim to avoid excessive demands and conflicts and try to reach a broad consensus. However, as a consequence, the administrative apparatus becomes dependent upon powerful organised interests and is likely to disfavour less important groups and non-represented social interests. The resulting disequilibrium within the corporatist arrangements exacerbates the legitimisation problem of the capitalist state. The institutional boundary between state and civil society becomes blurred and spheres of life, previously strictly private, become political. Offe therefore contended that corporatist arrangements can only be effective in case of relatively weak antagonisms of capital and labour or if high levels of political repression prevail.

Once the resources necessary for the functioning of the system and the normative values are no longer produced in sufficient quantity, mass loyalty to a political system is eroded and tends to disintegrate and escalate into a political crisis. These contradictions do not entail an automatic collapse of welfare state capitalism, yet they are not merely dilemmas that could be solved or managed through improved strategies and policy reforms. They

result in destabilising moments or crisis tendencies whose outcome depends on struggles and solutions on the political level (Offe, 1984, p.269).<sup>15</sup>

In his analysis of the success and failure of state policies in terms of the functional imperatives of accumulation and legitimation Claus Offe neglected “the strategic intelligence which government and state agencies often display” (Held and Krieger, 1983, p.490). Because:

[a] state faced with multiple tasks and well-defined conflicts of interest among the social classes it governs, or the groups within these, may find it necessary to maintain a degree of deliberate malintegration among its various policy-making arms so that each can mobilize consent among its particular constituencies by pursuing policies which, even if never fully implemented, appear to address the needs of these groups. In many cases the pursuit of incompatible policies renders all of them ineffective, but this strategy prevents any one group from claiming that the state has come down on the side of its opponents.<sup>16</sup>

This observation is also very relevant for the analysis of policies in Saudi Arabia, where various governmental branches or individual members of the royal family each appear to accommodate to the needs of their own key constituencies or of important individuals.

### **From the Economic to the Political Realm**

As a consequence of the contradiction between private accumulation and social production, capitalist societies are vulnerable to various crisis tendencies depending in which sub-system (economic, political/administrative or socio-cultural) they originate.<sup>17</sup>

In ‘Legitimation Crisis’ Jürgen Habermas attempted to identify spaces and patterns of crisis tendencies within the three sub-systems and to single out crisis tendencies that can emerge and affect them. The following diagram illustrates, according to origin, which type of crisis can occur, however, as Habermas stressed, a clear distinction between them is only methodological because in reality several types of crises may coincide.

<b>Point of Origin:</b> (sub-systems)	<b>System Crisis:</b>	<b>Identity Crisis:</b>
Economic	ECONOMIC CRISIS	----
Political	RATIONALITY CRISIS	LEGITIMATION CRISIS
Socio-Cultural	----	MOTIVATION CRISIS
		(Habermas, 1975, p.45)

Habermas elaborated crisis theorems for each crisis type and discussed strategies for their avoidance. Economic crises arise if consumable goods are not produced in sufficient quantity, rationality crises emerge if rational decisions are not made at a requisite quantity. A legitimation crisis arises in case of a lack of motivational commitment to the normative basis of a regime which causes the withdrawal of support or loyalty from the mass of the population; and a motivation crisis evolves if the requisite quantity of 'action-motivating meaning' can no longer be created (Habermas, 1975, p.49). As this study is concerned with the impact of the economic/fiscal crisis of the state, the discussion of Habermas's theory will focus on how the state's intervention in the economy influences crisis tendencies and the displacement from the economic to the political realm.

Similar to Claus Offe, Habermas argued that the state, through its intervention in the economic sphere, tries to minimise the impact of economic fluctuations on class antagonisms but thereby is only able to stave off problems and potential crises. By intervening in more and more aspects of life, more areas become subject to the control of the state, i.e. become politicised. As a result, demands on the state for participation and consultation over decisions rise, while at the same time struggles over a share in the government's services and competition for jobs increase. The state will face a crisis of legitimacy if these demands cannot be accommodated within the existing structures of interest mediation or silenced through pecuniary means. An economic crisis thus has the potential to turn into a political crisis and the transformation of the overall system becomes a possibility. A crucial element in Habermas' argument is that containing the effects of a crisis in one sub-system can only be achieved by transferring the crisis into a different sub-system. Effects of an economic crisis can be mitigated and constrained but in case they can not be solved on the economic level, the crisis will ultimately manifest itself in the political sphere. A crisis does not need to escalate, it can be repressed, defused or averted over a long period of time through the continuation of welfare services, efficient fiscal policies, political strategies or the lack of alternative options. However, even if an economic crisis can be avoided over an indefinite period of time, other series of crisis tendencies will evolve due to the continuous erosion of the existing order's capacity to reproduce itself. This is partly due to the fact that, while the state is compelled to assure the loyalty of one class or group it acts to the advantage of another. As the state's role expands, its role in controlling and manipulating becomes visible and

socio-economic and political asymmetries become more exposed. This puts further demands upon the state which for legitimation purposes needs to conceal its true nature. Ultimately, Habermas contended that the logic of crisis tendencies prescribes that capitalism will have to evolve, transform itself and overcome its underlying contradiction, i.e. class structures (Held, 1989).

Not all systemic alterations of a social system can be considered a crisis. In order for a crisis to escalate, it is important for the individual to experience the transformations consciously and to feel threatened in his/her continued existence (Habermas, 1975, p.3 and p.12). The continued existence is only threatened if social integration is no longer secured as a result of the diminishing consensual foundations of normative structures. For Habermas successful social integration is one of the main components of a social order's capacity to reproduce itself. Often regimes manage to conceal the nature of a crisis for a considerable time by, for example, emphasising the temporal nature of an economic downturn or by the control or censure of statistical data, which inhibits the awareness formation of the population of the extent and gravity of the situation. Habermas underestimated the forces (in form of social practices or structures) that act to fragment, and thus privatise, the people's experiences and that act as an obstacle to a systematic conception of the current situation, thereby preventing solidarity among the people. Uneven distribution of income and economic development tend to disperse the effects of the economic crisis to the most vulnerable parts of the population. These practices make class opposition less comprehensible and often entail compliance or depoliticisation. The 'culture industry' exacerbates this trend by generating diversions and distractions (Bottomore, 1995, p.119).<sup>18</sup>

Habermas argued that the main type of crisis advanced capitalism is facing is a 'motivation crisis' or 'social identity crisis'.<sup>19</sup> He speaks "of a motivation crisis when the socio-cultural system changes in such a way that its output becomes dysfunctional for the state and for the system of social labour" (Habermas, 1975, p.75). State intervention and intrusion in hitherto private realms have substantially changed the patterns of motivation formation while commitments increase that strain the demands on the state beyond capacity. Motivation within the socio-cultural system of capitalist societies is formed in two ways: through civil and familial-vocational privatism. Civil privatism leads to "political abstinence combined with an orientation to career, leisure and consumption"

and “promotes the expectation of suitable rewards within the system (money, leisure, time and security)” (Habermas, 1975, p.37). Familial-vocational privatism, on the other hand, engenders a behavioural pattern that is family oriented and preoccupied with consumption, leisure and status oriented career interest. This, as will be seen later, carries many similarities to the ‘rentier mentality’ in rentier states.

According to Habermas, crisis tendencies evolve as the traditions that have created these motivation patterns are eroded and the logic of development of normative structures precludes their replacement by functionally equivalent structures (Held, 1983, p.494). In advanced capitalist societies motivational patterns are derived from traditional pre-capitalist (old civic ethic, religion) components and bourgeois (possessive individualism, utilitarianism) components. This is an interesting observation as it carries similarities with the concept of articulation of modes of production and the transition from traditional to modern *asabiyya* discussed later on in the chapter.<sup>20</sup> Habermas attributed the erosion of traditional world-views to the process of a general rationalisation of life, “the expansion of the secular domain vis-à-vis the sacred; a tendency to develop from far-reaching heteronomy to increasing autonomy; the draining of cognitive contents from world-views... from tribal particularism to universalistic and at the same time individualistic orientations; increasing reflexivity of the mode of belief” (Habermas, 1975, pp.11).

Although Habermas’ theory focuses on late capitalism he also analysed four other forms of social organisation: the pre-civilisation or primitive, the traditional, the capitalist and the post-capitalist formation, except for the first, all of them are class-based. For each group he traced the organisational principles and the potential evolutionary tendencies which can give an indication of the type of crisis that can emerge.<sup>21</sup>

In the primitive social formation age and gender play an important role in shaping the institutional framework and family structure assumes both social and system integration. Norms and world-views are not distinguished and the principle of organisation is compatible with the moral system of the family and tribes. No production of surplus occurs in this social formation as it provides only for the basic needs of society, contradictory forces are thus unlikely to evolve. Change will occur only through external forces that undermine the organisational principles of society. In many aspects this social formation resembles the pastoral-nomadic mode of production prevalent in the Arabian



peninsula in the pre-oil era, the latter's structure changed only once in contact and heavily interacting with other modes of production, discussed in detail in Chapter 2.

In the traditional social formation the bureaucratic control apparatus and a central authority develops from a kinship based system. Ownership of means of production is no longer in the hands of family based forms of organisation. Functional differentiation occurs and the state takes over central functions in the economy and socialisation. The system gains some form of system authority and sub-systems begin to emerge that serve either social or system integration. However, this degree of system authority is traded in for an unstable class based structure of society which over the long run threatens social integration due to the latent conflicts of interests inherent in class systems. Ideologies or world-views serve to legitimate this order for a certain period. Habermas contended that the political class rule necessitates the mediation of tribal morals through civic ethics which continue to depend on tradition, i.e. are still particularistic, consequently it is incompatible with universalistic forms of intercourse. Traditional societies are vulnerable to crises due to internal contradictions between validity claims of norms and justifications that do not allow exploitation along class lines. In the short term the dilemma of how to distribute wealth inequitably without losing legitimacy is resolved by 'ideological protection of counterfactual validity claims'. Crises in traditional formations result from the increasing resort to repressive actions, rendered necessary because of 'steering problems'. This entails a loss of legitimacy which, in turn, results in class conflicts (Habermas, 1975). This form of social formation carries, as the following chapter will show, some similarities with Saudi Arabia in the early days of state formation before the advent of the 'oil era' and, to some extent, is still traceable today.

Whereas in traditional social formations the political system was centred and organised around a particular person or family rule, societies today are functionally much more differentiated and complex. No single person can symbolise or embody the political system and the state becomes distinct from its people. "A more abstract concept is therefore required to establish the identity of the core political apparatus and to orientate political action. 'State' is this concept. Indeed, as the political system becomes institutionally more distinct, the idea of the state becomes more clearly demarcated in relation to religion, education, economy, science..." (Luhmann, 1984, pp.99-125 and p.107).

Like Offe, Habermas' main emphasis is on developments within the confines of the nation state, thus neglecting the influence of international factors and the impact of globalisation. This is especially important when analysing rentier states which are extremely vulnerable to changes in the international economy due to their dependence on the export of one commodity. As Theda Skocpol stated, crisis tendencies cannot be analysed without taking into account international forces because:

it is precisely the intersection of processes and events in the national arenas - crisis of particular state forms, emergence of new social and political movements, conflicts in the relation between regimes, parties and economic institutions - with international developments, which have been the crucial determinants of transformative crises that affect the organisational principle of society (Bottomore, 1995, p.120).<sup>22</sup>

Little importance in Habermas' theory is attributed to a differentiated analysis of state structures and forms of interest mediation such as party politics, parliamentarism, corporatist arrangements and their relation to the socio-economic structure (Held, 1989, p.94). Yet these forms, as will be discussed in the final part of this chapter, play important roles in determining the crisis path and are essential for crisis avoidance. Before dealing in detail with the various forms of interest mediation, the next part will focus on the particularities of the oil rentier mode of production and its articulation with other modes of production.

## **MODES OF PRODUCTION AND THEIR ARTICULATION**

The nature of modes of production<sup>23</sup> and their articulation have an important impact on the evolution of a social formation and the economic-political relationship. While many features of the advanced form of capitalism can be found in the rentier mode of production, significant distinctions exist. For instance, rentier states, particularly those depending on the export of one single commodity, are far more vulnerable to international and regional developments than countries with a more diversified economy. Although this thesis will not discuss the external dimensions of state power and its limitations, it is important to keep in mind that the internal structure of a country, whose economy is closely intertwined with the international economic system, is affected by developments outside its immediate control. In rentier states the rate and also the

direction of accumulation is not determined by the national government but largely conditioned by external market mechanisms.<sup>24</sup> The repercussions of the fluctuations in oil revenues on the political economy of rentier states highlight the vulnerability to external forces. Val Moghadam has noted “the ephemeral character of the benefits of the oil monoculture. Where oil sales are almost the sole source of foreign exchange earnings, the oil state’s putative leverage in the world market is but an ‘illusion of power’...” (Moghadam, 1988, p.225).<sup>25</sup> Global economic developments, regional conflicts or changes in patterns of energy consumption all play a determining role in the level of oil prices, rendering government revenues highly unpredictable (see Chapter 4). Thus fiscal crises, albeit often aggravated by internal mismanagement and economic policy choices, are mostly externally induced.

While the welfare capitalist state assumes an important re-distributive function and intervenes directly in the process of economic production and surplus extraction, the rentier state, as the principal recipient of the rent, assumes an even more pivotal role in the economy and society. Rentier states also do not need to tax their citizens for revenues, which has important implications for the relationship between state and society and the way interests are represented and mediated.<sup>26</sup> Through its distributive mechanisms it creates social groupings; socio-economic stratification is thus not only a reflection of the forces and relations of production and class struggles, but predominantly shaped by the state’s spending patterns.

Furthermore, contrary to the Western experience where the bourgeoisie was instrumental in the creation of the nation state, the development of the state in the Arabian peninsula was determined more by external factors and the urban bourgeoisie (Krimly, 1993), as Chapter 2 will detail. While in Europe the transition to the capitalist mode of production occurred from a relatively homogenous formation, in the Arabian peninsula the pre-capitalist modes of production were far more complex and continue to coexist with the rentier mode of production and increasingly also with the capitalist mode of production (mostly in its exchange related aspect). As Nazih Ayubi has argued, while the economic base of the pre-oil era modes of production may have disappeared in the course of economic development and integration into the global economy, its political and ideological corollaries can still be traced in the contemporary institutional structure of the country (Ayubi, 1995). Saudi Arabia’s political structure was shaped and established

before the advent of the oil era, hence it cannot be analysed as a mere corollary of the oil rentier mode of production as some proponents of the rentier state paradigm have tried to do (Beblawi and Luciani, 1987).

### **Articulation and the Rentier Mode of Production**

Transitional social formations are structured by what John Taylor termed 'articulation of modes of production', where different types of modes of production coexist.<sup>27</sup> The socio-political corollaries of articulated modes of production are in a constant situation of flux because of the transformations of the economic conditions and the growing significance of the capitalist mode of production. The succession to a 'pure' capitalist mode of production is, however, not necessary (Taylor, 1979). Harold Wolpe observed that "the notion of articulation... refers to the relationship between the reproduction of the capitalist economy on the one hand and the reproduction of productive units organised according to pre-capitalist relations and forces of production on the other" (Wolpe, 1980, p.41).

In social formations of articulated modes of production no clear class hegemony tends to develop. Due to the weakness or absence of a hegemonic bloc that could maintain social order, the state acts as mediator on behalf of all social groupings. A likely political corollary of articulated modes of production are corporatist-type arrangements in which the state assumes a compensatory function. Ayubi called this the 'principle of compensation' where "the political sphere can be linked to the social sphere not in the sense of a representation but rather in the sense of a compensation: political forms do not reflect what is social, **they complete it**" (Ayubi, 1995, p.29, emphasis in original). Articulation implies not only linkages between the economic aspects of a mode of production but extends into, what Ayubi described as, 'non-corresponding instances' of structural power, i.e. modes of coercion and persuasion (consent). Current socio-political realities thus do not necessarily correspond only to the present economic conditions but may reflect socio-economic relations of the past (Ayubi, 1995, pp.40). The articulation method can therefore help to explain the persistence of clientelist and patronage networks, that survived as ideological and political aspects of pre-oil era modes of production, even when their economic relevance had lost in importance. 'Tribalism' can thus still be expressed socially and politically despite the decreasing role

of its economic base. The articulation method thereby helps, as Ayubi maintained, in understanding what Al-Naqeeb had called 'political tribalism' without retreating to arguments about cultural specificity (Ayubi, 1995, p.28 and Al-Naqeeb, 1990).

The concept of articulation is of great importance for the analysis of the current socio-political realities of Saudi Arabia. As the origins of the Saudi state predate the incorporation into the capitalist world order, its prevailing institutional structures have to be analysed in the light of the influence of pre-oil era modes of productions, the pastoral-nomadic and the mercantile-tributary mode of production and their current articulation with the oil rentier mode of production. The articulation of modes of production influences political alliances and structures and the strategies adopted by the various social and political forces in times of economic contraction or political crisis. In conjunction with the non-correspondence factor, mentioned above, it also contributes to a better understanding of the relationship between economic and political liberalisation.

A prevalent argument of the rentier state literature emphasised the principle of 'no representation without taxation', i.e. a trade-off between representation and accountability for a share in oil revenue, and concluded that a limited availability of rent would reverse the slogan to 'no taxation without representation' and would thus provide an important stimulant to the democratisation process (Luciani, 1987, 1988, 1994). Many social scientists also assume that there is a positive relationship between the spread of capitalism, a free market economy and democratisation, thus believe in what Offe described as 'democracy by capitalist design' (Leca, 1994, p.68).<sup>28</sup> Expenditure cuts entail a loss of instruments of control while "privatization is a declaration of weakness and sets the stage for the development of civil society, the multiplication of decision-making centres and eventually democratization" (Luciani, 1994, p.134). Yet, as will be seen below and in subsequent chapters, there is no direct mechanistic link between rent and political order or between economic and political liberalisation, the dynamics

States whose revenues depend on external sources rather than on domestic production and taxation display particular socio-political dynamics and have often been called 'rentier states'.<sup>29</sup> According to Hazem Beblawi, rentier states display the following features: income in the economy is generated predominantly through externally derived rent and the generation of rent is centred around a small percentage of the population,

while the rest of the population is mostly distributing or consuming the wealth. Income is not related to productive activities (except for the extraction of oil which is not really a productive activity) and, as most employees in the oil industry are expatriates, the production function remains external of society. Since a large fraction of the population is involved in the consumption of rent, society will eventually adopt what Beblawi termed the 'rentier mentality', which has an important effect on the political and economic behaviour. Michel Chatelus described the implications for the economy as follows: "[g]etting access to the rent circuit is a greater preoccupation than reaching productive efficiency...economic behaviour is biased in a rent-dominated economy by individual or even corporate group tendencies competing to increase their share of the circulating income. Given that goal, productive activities are not efficient" (Chatelus, 1987, p.117). The traditional sectors, such as agriculture, are usually neglected while the non-oil economy is geared towards circulation and consumption. Little articulation of different economic sectors occurs and the state serves as the main mediator and regulator between the different economic sectors as well as between the international and the domestic economy. Beblawi contended that a rentier state usually develops from the predominance of the rentier economy since the state, as the sole recipient of the rent, assumes a supercentral role (Beblawi and Luciani, 1987, p.12).

### **Hegemony in the Rentier Mode of Production**

In the rentier mode of production the state assumes, as mentioned above, a pivotal role in the economy and the government sector represents a high percentage of GDP. Resource allocation, through the government's distributive schemes, provides the main source of income for society. As a result, social stratification is not a reflection of the economic forces but dependent on access and influence to the state apparatus. The development and establishment of the administrative apparatus and the government's distribution schemes lead to the emergence of new social mobility patterns and social groupings, in particular a new middle class. The notion of a distinct middle class, however, might be misleading because of a lack of cohesion among the classes and because of a high permeability of class lines; for instance, members of one family can belong to several different classes. Heller and Safran argued that for the new middle class: "although the term stratum might convey a more precise notion of their collective character, they do constitute a distinct social formation because... they did not exist in

the traditional order, as the product of the modernisation process, they are not heirs to any traditional corporate identity or loyalty... and they possess a modern secular education” (Heller and Safran, 1985, p.3). While the development and expansion of the administrative apparatus led to the creation of a state dependent middle class, no indigenous working class emerged. Most of the native pre-oil era workers were absorbed by the expanding state bureaucracy and, as a result, tend to identify themselves as state employees and along sectoral lines rather than as a class. The working class in the oil monarchies/sheikhdoms is composed of non-nationals of diverse backgrounds who are not organised (Crystal, 1996, p.272). Samih Farsoun described the situation as follows:

In a society where social and economic relations are determined by political ones, and where the citizen does not enjoy autonomous political rights but only the possibility of putting pressure on the bureaucracy through membership in a community or power group, it is not certain that the class structure would bind the regime’s roots, however strong international constraints might be and regardless of the resentment they may give rise to. In fact, behind the embourgeoisement and the apparent homogeneity of the productive private sector there is a fragmented and heterogeneous social structure - with a weak industrial bourgeoisie and weak working classes, plus a highly stratified middle class the members of which occupy several class positions which favours a scattered social consciousness and mediating institutions which ‘instead of being the mechanism for mobilizing the people and acting as centers for checking the authority of the state have become a means of control of the people by the state’ (Farsoun, 1988, p.231).

However, despite their dependency on the state, powerful interest groups have emerged, as will be seen later on, which are “powerful not despite of the state but precisely because they are connected to the state” (Krimly, 1993, p.53). The state thus disposes over far less leverage over, and autonomy from, its people than widely assumed. This seriously limits the state’s policy options in retreating from its allocative functions during an economic recession.

The concept of autonomy usually refers to the capacities of different social forces to realise their objectives and interests. Theda Skocpol defined state autonomy as follows: “the state formulates and pursues goals which are not simply reflective of the demands or interests of social groups, classes, or society” (Skocpol, 1985, p.9). Althusser, Balibar and Poulantzas used the concept of ‘relative autonomy’ to explain the relative independence of the state from class struggle or social forces in capitalist states.

Poulantzas argued that, rather than the state being a mere instrument of the dominant class, it can act with a certain degree of independence or 'relative autonomy', therefore represents a medium of cohesion within society. The autonomy is, however, not absolute but relative for it is circumscribed by social forces that constrain and shape the state (Jessop, 1990).

The capacity of the state to act independently is also a function of the two aspects of hegemony, consent and coercion, the nature of interest mediation and the extent of co-optation in society. Corporatist arrangements, for example, tend to limit the scope of manoeuvre for the state, as well as for society, because in the long term group interests tend to coalesce independently of the state and previously non-aware groups evolve, rendering the autonomy of the state an ephemeral phenomenon. State autonomy within a system thus does not represent an immutable variable and is dependent on the extent of interpenetration of state and society. Crisis situations can provide particular insight into the real scope of state autonomy and elucidate the difference between state autonomy and state strength, as described below. A financially autonomous state that is not restrained by narrow class interests is expected to be able to intervene or impose decisions on society more easily, even against the interests of the most strategic social groups. Although the influx of oil revenues seemed to have enhanced the autonomy of the rentier state, it would be a fallacy to assume that this translated into state strength. While the state increased its role in the economy and society, it became subject to societal penetration, thus: "[t]he very act of state intervention may be a precursor for the subversion of state control by politically relevant interest groups in the state apparatus" (Snider, 1987, p.465). Lewis Snider maintained that political strength is independent of levels of national income and that no *a priori* reason exists to assume a direct correlation between oil wealth and political strength of a government, in relation to society as well as in relation to the international community. In countries where the government does not need to extract revenues from its citizens, like for instance in the Gulf monarchies/sheikhdoms, the state affords a very limited capacity to implement economic policies against the interests of social groups and to extract resources should the need arise. As Snider observed:

[t]he political weakness of the GCC governments with respect to implement political changes throughout their own societies has been mitigated by their ability to use oil wealth as a buffer against too abrupt



change in domestic social structures as a result of the oil boom in the late 1970s. The fact that oil wealth has generated considerable social change in these countries should not be confused with these governments' abilities to implement changes in their domestic social structures...The limitations have been disguised by the fact that the oil producing GCC governments have become adept to using oil wealth to forestall major changes in domestic social structures (Snider, 1987, p.462).

He defined state power "as the capacity of the government to respond to external pressures and crises through unilateral action which includes the ability to affect internal adjustments to economic and other dislocations emanating from the global environment" (Snider, 1987, p.464). Drawing upon Michael Mann's distinction between infrastructural and despotic power, Snider distinguished between three dimensions of state power: strategic, infrastructural and informally institutionalised infrastructural power.<sup>30</sup> Infrastructural power has two aspects, the state's capability to intervene in social life as well as its ability to withdraw from it. State intervention is thus only a superficial indication of state power if the state is not also able to withdraw resources without major repercussions. The absence of the need to tax a society for the generation of revenue has important implications on a state's capabilities to translate its power into action. Most rentier states suffer thus from a lack of infrastructural power:

the rentier nature of the state... militates against the creation of a strong state or the involvement of its corresponding society. In this light the massive revenues accruing to the government in a rentier state are a double-edged sword, allowing the local governments to dole out revenues with minimum attention for representation, on the basis of the reverse principle of no representation without taxation (Vandewalle, 1987, p.34).

Lisa Anderson similarly observed that, due the limited tax efforts in the Middle East, political participation is limited as citizens who are taxed tend to devise ways to be represented (Anderson, 1992). John Waterbury, on the other hand, argues that the lack of institutions of accountability cannot be linked directly to the absence of taxation: "neither historically nor in the twentieth century is there much evidence that taxation has evoked demands that governments account for their use of tax monies. Predatory taxation has produced revolts... but there has been no translation of tax burden into pressures for democratization". Much depends on the nature of taxes, i.e. direct or

indirect taxes, and on the 'tactics of the taxed' which, depending on wealth and power, tend to vary from resignation to evasion or lobbying (Waterbury, 1994, p.29).

### **Crisis Displacement in the Rentier Mode of Production**

If one applies the previously mentioned crisis displacement theory of Jürgen Habermas to the rentier mode of production one can observe that the rentier state, by using its allocative mechanisms, is able to prevent political challenges from emerging. Underlying contradictions and problems within the society are often not resolved at the political level but transferred or displaced into the economic level. Achievement and performance in the economic sphere becomes important for the regime's *raison d'être*, as Ayubi aptly formulated it: "[t]his often transmits politics and its language into a language of economics... An economic crisis thus becomes a crisis for the state, which will often try to find financial solutions for the difficulties without readily conceding its economic (and thus political) control" (Ayubi, 1995, pp.31-32). With economic development and the state's intrusion into hitherto private realms, society witnesses significant transformations that alter, what Habermas termed, the individual's 'pattern of motivation formation'. The rapid economic modernisation engenders a change in the modes of production, widespread education, communication exchanges, exposure to the outside world and concomitantly de-tribalisation and urbanisation.<sup>31</sup> Since this also leads to a change in the economic foundations of the individual's existence and his/her attitudes and value system, it may result in a disruption or disintegration of the traditional social order.

The rationale behind the state's development and distribution schemes is often found in the need to defuse growing pressures for political and social changes. Samuel Huntington argued that "oligarchic authoritarian regimes often feel compelled to launch modernisation programmes via state initiatives. This is sometimes described as 'defensive modernisation' in that it represents a response by traditional regimes threatened by expanding Western power and culture" (Huntington, 1968, p.155). In a similar way Michael Hudson used the term 'modernising monarchies' (Hudson, 1977). Samuel Huntington's 'Gap hypothesis' stipulates that political instability in modernising countries can be measured by the gap between aspirations and expectations of a society. The ability of the state to satisfy new aspirations evolves at a much slower rate than the people's aspirations. During an economic boom when resources are abundant, the

economic system is able to satisfy the increasing demands, yet with declining financial means the underlying contradictions and other 'postponed' political and social developments surface. While facing social mobility closure, expectations of particularly the younger generation tend to remain at a level based on what the older generation used to have. It is in this context that wealth and power inequalities and the squandering of wealth by the elite can become important focal points for regime critics. Additionally the unevenness between the level of social mobilisation and socio-political development increases the potential for frustration and political instability, which is further reinforced in periods of economic problems.

After several decades of benefiting from welfare provisions citizens tend to cease to consider them as 'gifts' from their rulers and come to regard them as a norm, entitlement and a right, to an extent that citizenship in rentier states is almost equated with a source of economic benefit. Beblawi has termed this attitudinal corollary of the rentier mode of production 'rentier mentality' (Beblawi, 1987). Samih Farsoun summarised it accordingly:

The welfare programs and basic food subsidies that have been instituted by ruling élites in order to defuse democracy and popular discontent and to mobilize support for the regime have already and will continue to become over the years not grants of favour but **political rights** of the citizens...Unwittingly, Arab states have planted the seeds of an important political principle: the citizen's **political**, not just humanitarian, **right to economic security**. This right, along with political rights will emerge in the twenty-first century as the central issue of domestic Arab politics (Farsoun and Zacharia, 1995, p.262, emphasis in original).

A similar process was observed by Claus Offe in the Western welfare state:

the identification of the welfare state as an important socializer of the costs of production produces an addictive effect. Various power groups within the economic and socialisation subsystems come to regard the state as it were an unlimited liability insurance company. It is supposed to be capable of underwriting all possible risks, needs and failures (Offe, 1984, p.19).

This, once again, underlines the many similarities between the problems facing the advanced capitalist states and the rentier states. Usually it is not absolute deprivation that causes frustration and protests, but relative deprivation, the discrepancy of what one is

used to receive, and what one thinks could be realistically achieved. Thus what threatens hegemony is often not so much a fiscal crisis or poverty but the growing attention on wealth concentration, profligacy, excessive defence contracts, commissions, the monopolisation of profit opportunities for the ruling élite, social closure and unemployment (Luciani, 1995). This asymmetry, which can be both socio-economic as well as political, becomes more exposed in eras of a general economic downturn and frequently also as a result of economic liberalisation policies. As Farsoun and Zacharia argued, economic liberalisation policies can, due to their differential impact on social classes and sectors, exacerbate inequality, generate volatile political dynamics and consequently undercut prospects of political liberalisation. They maintained that structural adjustment leads to a pattern of upward redistribution of resources thus “elite-instituted economic and political liberalism is incongruent or unsustainable in the context of socio-economic polarization and mass political alienation and resentments”. The wealth gap is not “conducive to building a national consensus to sustain elite-instituted economic and political liberalization”, hence liberalisation from above is only successful if backed by the mass of the people (Farsoun and Zacharia, 1995, pp.263-275) and if everyone, including the ruling élite, is felt to share the burden.

The gradual transformation of expectations and aspirations becomes particularly evident in the analysis of the state-created new middle class. Many writers have argued that the emergence of a new middle class would lead to a heightened awareness of political issues. Leonard Binder and Lisa Anderson, for instance, have attributed the bourgeoisie an important role in political liberalisation, but consider their current weakness and dependency on the state as an important retarding factor for political change. John Waterbury contended that the importance of the bourgeoisie depends on the control of resources. The more significant its resources and the more they are beyond the reach of the state, the more likely it is that the bourgeoisie’s power will be felt in the political space. The expansion of the private sector is not necessarily connected to the demand for democracy, but linked to a demand for accountability on the part of those in control (Waterbury, 1994, p.28).

Analysing the case of Saudi Arabia, Mark Heller and Nadav Safran argued that the relationship between the middle class and its creator, the state, changes from close co-

operation to accommodation and ultimately to open confrontation and opposition. They argued that:

it is possible for the strain between the new middle class and traditional ruler to persist for a considerable length of time without serious danger to the political order because the new middle class usually lacks the inherent solidarity to act as a revolutionary class. However, if the state is confronted with a major crisis and found wanting, the alienated new middle class is often galvanised to act. In such circumstances, the middle class tends to abandon its creator, the traditional regime, and to transfer its allegiance to revolutionary forces who carry out a coup and promise truly effective modernisation program (Heller and Safran, 1985, pp.4).

The decline in oil revenues and the ensuing economic difficulties can generate, or provide the catalyst for, such a crisis. A displacement of crisis can partly be mitigated by an absorption of some of the tensions by the ideological sub-system. Yet, in case the ideological foundations or the normative congruence of values is undermined by an erosion of the motivational patterns and other developments, like, for instance, a religious challenge or external events, an eventual displacement of crisis seems inevitable.

Many scholars that have analysed the impact of modernisation and development on Saudi society have emphasised the potential for, and inevitability of, a conflict between the modernisation process and traditional values. Helen Lackner, for instance, contended that the impact of financial wealth and the 'modernising' influence of the West on the traditional nature of the Saudi society threatens to undermine the foundations of the regime, "the rush into consumerism and US orientated development policies... are causing cultural destruction without offering replacement. The culture of the desert gave way to a cultural desert" (Lackner, 1978, pp.215). Similarly, Bernard Schechtermann maintained that "the political dynamics of destabilisation are built into the predicament, regardless of the rationalisations and interpretations provided by the regime" (Schechtermann, 1986, p.4). Fatina Shaker, on the other hand, claimed that the Saudis have been more successful than commonly perceived in adapting their ideology to changes: "[t]radition and modernity are generally treated as a dichotomy where each type is assumed to constitute a system of interrelated variables in contrast to the other" (Shaker, 1972, p.1). However, she maintained that modernisation does not necessarily lead to the destruction of traditional structures because tradition does not constitute a uniform and rigid system opposed to modernity. The new and old can be intertwined, with both forces serving common purposes: "[t]hose parts of the social structure which

are usually termed 'traditional' have often played a central role in creating a framework within which 'modern' economic development could proceed" (Niblock, 1982, p.76). Gregory Gause argued that the Gulf monarchies have utilised tradition and created an ideology of Islam and tribalism, based on their own interpretations, in order to stress continuity and thereby buttress their legitimacy. While the institutions embodying the tribal or Islamic elements have undergone significant transformations, as will be seen in subsequent chapters, the *ulama*, for instance, has become dependent on the state and tribes have lost much of their autonomy, the symbols and rhetoric of tribalism and Islam have become more important (Gause, 1994, pp.9). He contended that "Islam and tribalism are not immutable political facts. They are frameworks for identity. Their content is open to political debate and struggle, a process going on in the Gulf monarchies... Regimes put forward interpretations, supported by the financial, institutional, and media resources at their disposal" (Gause, 1994, p.86).

## **THE RENTIER STATE IN CRISIS - A STRATEGY OF INCLUSION OR EXCLUSION ?**

Political strategies, the articulation between different forms of interest mediation and state intervention (coercive or non-coercive), ultimately determine the success of rulers in maintaining their hegemony. An analysis of different forms of interest mediation/representation and the institutional context in which the different societal actors can operate is, on the one hand, crucial for identifying the actions politically relevant groups might take in case of a fiscal crisis and, on the other hand, provides an idea to what extent the political system may be able to generate sufficient consent to avoid the translation of an economic to a political crisis.<sup>32</sup>

As mentioned before, the consensual aspect of hegemony in a rentier state is to a large extent determined by the availability of welfare benefits. During a fiscal crisis these material benefits diminish and the state is compelled to retreat, albeit often only partially, from its allocative functions. The scope of government action in retreating from its rentier nature is determined by its capacity to overcome or control social opposition. The implementation of liberalisation policies requires the complicity and consent of those forces that benefit the most from the *status quo*. In order to generate consent it is

therefore required to re-negotiate its 'pact' with society and *ergo* to re-define its relationship with society. Antonio Gramsci, as mentioned above, contended that consent can be generated through various inclusionary political practices such as institutionalising participation and accountability or through relying on the ideological state apparatus to reinforce normative congruence of values. Generating consent through popular inclusion, confronts the regime with what Augustus Norton termed the 'challenge of inclusion' (Norton, 1995). It necessitates the mediation of different interests, including those of the ruling élite, which, without relinquishing too much power and without encouraging the rise of another hegemonic bloc, represents a difficult balancing act. Alternatively, the ruling élite can revert to a more exclusionary strategy, using its coercive capabilities to avoid political change. As mentioned previously, the use of coercion is not limited to the exercise of direct physical force but can include religious and ideological tools which can bring 'deviant' elements back into conformity.

The following analysis of various forms of interest mediation will focus on the degree of inclusion and exclusion that the different modes of interest mediation provide for the various strata of society. It is important to take into consideration the "costs and benefits in general, their conjunctural variation and structural distribution - who benefits and who loses by what institutional arrangement in what situation" (Marin, 1987, p.59). In the Saudi case there is no clear class hegemony and horizontal and vertical stratification coexist, hence an analysis that is premised on either the supremacy of the individual or class is not applicable (Ayubi, 1995). At the moment the particularities of social stratification and the mechanisms of interest mediation between the various strata of society and the state can more easily be classified under the corporatist paradigm. The discussion therefore concentrates on an analysis of corporatist arrangements and practices and the role of civil society. Particular emphasis will be on the transformation of corporatist arrangements and the underlying socio-economic reasons for these transformations. Drawing to some extent on Khaldoun Al-Naqeeb's and Nazih Ayubi's approach in identifying the formation and transformation of corporatist structures in the Arabian peninsula, the next part will look at clientelistic structures and their incorporation into corporatist-type of arrangements before providing a brief description of the classifications of the different sub-types of corporatist social formations. Another objective of this section, that will be further elaborated upon in the course of the next chapters, is to trace shifts in the relative size and influence of social groupings. In this

context it is important to examine whether membership of the 'strategic' groups has a permanent character, if and to what extent social mobility exists and, in case it exists, on what level (i.e. among the higher or lower ranks). It is also very illuminating to see which groups the ruling élite seeks to ally with or to co-opt and at whose expense this occurs, for example on what occasions business groups or religious groups are favoured and at what time and over what issues other groups gain the upper hand. This transformation will have to be analysed in the light of the changes of the political structures of the state, the way interests are represented and how political reforms may respond to and accommodate the shifts. A detailed discussion of the political structures in Saudi Arabia will follow in the subsequent chapters.

### **Corporatism and Hegemony**

Corporatism is understood as a way of organising political and economic interests and the interaction of those interests with the state.<sup>33</sup> As the state constitutes the arena for corporatist practices, their representation and intervention, the role of the state provides the core of the corporatist analysis. Phillipe Schmitter described corporatism as a distinctive modern sub-system of interest intermediation between organised interests of civil society and the state. He gave the following definition of corporatism as an ideal type, acknowledging that in reality no system of representation displays all of the following aspects:

Corporatism can be defined as a system of interest representation in which the constituent units are organized into a limited number of singular, compulsory, non-competitive, hierarchically ordered and functionally differentiated categories, recognized or licensed (if not created) by the state and granted a deliberate representational monopoly within their respective categories in exchange for observing certain controls on their selection of leaders and articulation of demands and supports (Schmitter, 1974, pp.85).

In Western industrial countries the re-appearance of corporatist arrangements, as mentioned before, reflects the emergence of new articulations of the post-industrial, welfare phase of capitalism. The corporatist paradigm accounts for the growing interpenetration of the public and private spheres witnessed in welfare capitalism and also in the rentier mode of production. The corporatist form of interest mediation has a 'statising' and a 'privatising' element: on the one hand, it can provide the forum for the



state's conquest and subordination of civil society, on the other hand it can also provide organised interests or civil society with the opportunity to use the state's institutions for the propagation of their interests (Ayubi, 1995).

Corporatist arrangements are also a likely political manifestation of articulated modes of production and of periods of transition where no clear class hegemony has been established. Theorists do not agree whether corporatist patterns are the outcome of deliberate policies concerned with conflict avoidance or of historical evolution (Scholten, 1987, p.2). Ayubi emphasised, that it is important not to assume that corporatism is the outcome of cultural traits of Arab or Muslim societies: "[a]lthough such cultural influences cannot be ruled out completely, corporatism is far more intimately related to the articulation of modes of production than it is to any 'eternal' cultural traits pertaining... to the idea of an 'organic' society" (Ayubi, 1995, p.184).<sup>34</sup> He also maintained that the concept of corporatism provides a means for linking the "concept of community to that of the state, i.e. various corps that act or are utilised as intermediaries between the community and the state" (Ayubi, 1995, p.19). Corporatist and consociationalist arrangements are most likely to occur in states with pronounced and deeply rooted societal cleavages, like ethnic or religious divisions. Due to corporatist strategies conflicts remain muted and the states seem rather stable. Arguably strong states do not need to rely on corporatist arrangements, while weak states that rely on corporatist arrangements are prone to be constrained by powerful interest groups. For corporatist arrangements to function effectively a certain balance of power between the various groups is required. Leaders of corporatist groups have to be capable of securing the compliance and discipline of their own followers, to gain bargaining power vis-à-vis the state which entails a high degree of central authority within the individual groups (Offe, 1984 and Scholten, 1987).

Schmitter distinguished between 'state corporatism' and 'societal corporatism'. Societal or society-centred corporatism, often also called 'neo-corporatism' can be found mostly in advanced capitalist countries and is characterised by interest organisations that have developed parallel and as a result of the expansion of state interventionism. In this form of corporatism groups develop gradually from below and are neither independent from the state nor completely dependent (Schmitter, 1974). Ayubi distinguished two sub-groups of societal corporatism: community-centred and society-centred corporatism. The

community-centred corporatism is formed of primordial, solidarity-type groupings and is usually found in early phases of modernisation when classes have not fully developed nor acquired awareness. The society-centred version is composed of associational and interest groupings (Ayubi, 1995, p.192). State corporatism, on the other hand, occurs predominantly in regimes where capitalist penetration is either not complete or dependent. This type is often associated with authoritarianism and countries where capitalist transformation is imposed by the state.

Depending on the type of corporatism, corporatist arrangements include primary, solidarity based groups as well as functional interest groups. Few systematic studies of corporatist arrangements for the Gulf monarchies/sheikhdoms exist, Khaldoun al-Naqeeb was the first to introduce the concept to the analysis of the countries of the Arabian peninsula, Kiren Aziz Chaudhry also showed the existence of corporatist-type arrangements in the case of Saudi Arabia (Chaudhry, 1992, p.150). Ayubi classified the Gulf countries in the community-based corporatist version with some consociational undertones as the highly institutionalised practices of corporatist arrangements are still largely lacking and decisions tend to be made by elite bargaining and compromises more typical for consociationalism (Ayubi, 1995, p.192).<sup>35</sup> Al-Naqeeb identified, along with the ruling families, six main corporate social groups in the Arabian peninsula: the tribal establishment, merchants, sectarian establishments i.e. heads of religious sects, the religious establishment, the middle class (with which the government deals on a family basis) and workers (in cases where an indigenous working class exists) (Al-Naqeeb, 1990, p.106). Most of these groups or 'corps' are not organised in a network of formal or officially sanctioned institutions, yet are represented semi-officially within the state apparatus and permeate the bureaucratic apparatus at the central and local level to varying degrees.

Tribal corporations, as Al-Naqeeb stressed, play an important role in the political stability of the regime, "tribal organizations... provide these families with ideological, hegemonic and repressive instruments for the imposition of their ruling system and its stability" (Al-Naqeeb, 1990, p.108). Tribal groups continue to provide crucial links between the individual and the state apparatus. By their ability to keep individual members at bay and by providing informal links between members with potentially different interests, the cohesion of tribal groups and extended family 'oils the system' (Crystal, 1996). Tribal

groups for example are incorporated into the state by several mechanisms, subsidised sedentarisation or recruitment into the security apparatus.<sup>36</sup> Tribal groups, like other vertically differentiated groups such as the family, clan or ethnic groupings, “persist within the modernised state structures” and as a result “the patterns of patronage and clientalism characterise the operations of the expanding bureaucracies” (Ehteshami and Murphy, 1996, p.758).

Corporatist strategies are motivated by the concern about the legitimacy and stability of a regime, thus emphasise the collaborative, consensus aspect of state power. The state and parts of society are linked together by a political ‘pact’ which O’Donnell, Schmitter and Whitehead defined as an:

explicit, but not always publicly explicated or justified, agreement among a select set of actors which seeks to define (or better, to redefine) rules governing the exercise of power on the basis of mutual guarantees for the ‘vital interests’ of those entering into it. At the core of a pact lies a negotiated compromise under which actors agree to forgo or underutilize their capacity to harm each others’ corporate autonomies or vital interests (Leca, 1994, p.49).<sup>37</sup>

Corporatist practices range from welfare policies to indicative planning which are all geared towards meeting the aspirations of corporate interests. Public policy reflects the bargaining process between state agencies and organised interests whose political support and co-operation is essential for the state. For the case of the Gulf monarchies/sheikhdoms Al-Naqeeb lists, what he calls ‘methods of manipulation’, which the ruling families use and which renders their sources of power so effective: they choose and appoint leaders according to their interests, then they ‘seduce’ and co-opt the opposition and lastly they form temporary alliances (Al-Naqeeb, 1990, p.108).

### **Transformation of Corporatist Social Formations**

Most of the corporatist literature fails to take into account the political economy aspect of corporatist social formations and their transformations caused by changes in the mode of production or their articulation (Scholten, 1987, p.11 and Ayubi, 1995). Frequently the importance of socio-economic conditions that engender or facilitate the emergence and transitions of corporatist groups is neglected. In the Arabian peninsula the

composition of corporate groups has changed since the advent of the oil era. Functional, interest-type of groupings slowly evolved and complemented, sometimes also replaced traditional groupings. Oliver Roy has elucidated this process by analysing the change in the nature of *asabiyya* (solidarity groups) (Roy, 1994, p.272).<sup>38</sup>

Traditional solidarity groups are constituted of the clan, tribe, village and extended families. After the formation of the state they often linked themselves to the state and tried to utilise it for their interests but did not directly exercise power. Tribalism represents only one form of *asabiyya*, Krimly argued that “even here it rests less on actual kinship relations... than on actual socio-economic conditions” (Krimly, 1993, p.37). As the state as distributor of benefits began to bypass tribal leaders, the latter lost many of their previous functions, which had important repercussions on the nature of the traditional *asabiyya*. Modern solidarity groups, on the other hand, emerged with the state and, similar to those of the traditional *asabiyya*, function along inter-personal relations. Roy observed that:

the *asabiyya* has changed. By the time one faction has taken over the state, it remains only nominally the same. The very process which brought it to power has destroyed the traditional society from which it originated. The modern *asabiyya*, therefore, are no longer an expression of traditional sociability. On the contrary, they lead to the fragmentation of traditional society because of the ways the state power allows them to operate, without the safeguard and limitations of a traditional state based on a fine balance of its various solidarity groups. The acquisition of the state by one particular group breaks the symmetry and balances of the traditional society, although it is possible for this equilibrium to be maintained (Roy, 1994, p.271).

Groups closely connected to the ruling élite will benefit the most, thus the expansion of the role of the state destroys the equilibrium among groups. The traditional *asabiyya* is also disrupted by the process of sedentarisation and urbanisation. Oliver Roy interpreted the modern *asabiyya* as a re-formation of group-solidarity. As a result of the formation of the state and the globalisation of economic and financial exchanges, they represent the re-formation of a relationship of traditional solidarity in a modern situation; yet the modern *asabiyya* cannot be considered as the survival of tribalism. “The main difference between traditional *asabiyya* which reform with the establishment of the state and the new *asabiyya* is that the former have a legitimacy based on their origin while the latter are in search of a founding myth and therefore more subject to the risks of having their

legitimacy challenged” (Roy, 1994, p.272). Ghassan Salamé argued that the continued existence of *asabiyya* can also provide an explanation for the prevalence and effectiveness of religious discourse as, what he calls a “supra-segmentary if not unitarian reference” (Salamé, 1994, p.9). The new solidarity networks can thus represent an important mechanism for the legitimation of the regime.

The transformation from traditional to modern *asabiyya* is reflected in their differential access to the rulers. Nicholas Hopkins distinguished between access to *al-dawlah* (state or bureaucracy) and *al-hukumah* (royal family or governors). Whereas the new middle class, in particular public sector employees, tends to have access to *al-dawlah*, the old commercial élite has, due to its wealth, access to *al-hukumah*. The latter’s influence began to wane with the importance of the oil revenue and they were gradually replaced by a new business élite that is dependent on the state and its distributive mechanisms (Chaudhry, 1989, p.126). To regain their influence they need to seek government posts and enter the *dawlah*-based clientele networks. Tribes tend to rely mostly on access through *al-hukumah*, but can gain access to *al-dawlah* by the incorporation into government posts and in the Saudi case the National Guard, as will be looked at in the following chapters. For influence to be effective, Hopkins argued, one needs both sorts of access.<sup>39</sup> Those groupings that dispose over both types of access, as will be shown in Chapters 4 and 5, have been particularly successful in lobbying the government during the fiscal crisis.

Ayubi contended that corporatism in organisational terms represents a more advanced form of patronage or clientelism and can evolve via the transformation of a ‘firming up’ of the clientelist, patronage system (Ayubi, 1995, p.183).<sup>40</sup> The more a specific group is tied to groups with a particular background, we can speak of an institutionalisation of clientelism (Scholten, 1987). The second chapter will relate in more detail to the changes in the modes of production and their influence on the patron-client relationship. Social mobility in corporatist arrangements is closely connected to the patron-client relationship. By perpetuating these relationships social closure is a likely corollary of the concentrative dynamic of corporatist arrangements. As Cawson remarked, “[t]he corporatist trend is one... of concentration in the political marketplace” (Cawson, 1986, p.35), where a limited number of groups are allowed to operate within the constraints set by the state. Claus Offe, as described above, observed in neo-corporatist arrangements a

trade-off or coalescence of interests among the powerful at the expense of the most vulnerable, i.e. marginalised groups or regions. By favouring strategic groups corporatist strategies tend to undermine the acceptability and consent of those excluded from the key decision-making processes in the long term. Ehteshami and Murphy maintained that: “[o]ne of corporatism’s major virtues has been the fact that it allows regimes to disguise the abandonment of commitments to social justice with mechanisms for incorporated interest articulation” (Ehteshami and Murphy, 1996, p.758). In the long term, the intrinsic inequality of corporatist arrangements might lead to the crystallisation of a class system. For Al-Naqeeb corporatism serves as a convenient formula for the domination of the élites, which are able to direct modernisation and industrialisation while claiming that the authenticity of culture and identity is preserved. Thus tradition and modernisation can be reconciled behind the mantle of despotism. He observed that:

[t]he dependence of the authoritarian state upon the corporations in the Gulf and Arab Peninsula environment, and in the absence of parties representing the populace and of social systems facilitating national fusion, necessarily leads to the institutionalisation of tribalism and sectarianism, just as the attainment of political independence led to the institutionalisation of regionalism as opposed to pan-Arab integration (Al-Naqeeb, 1990, p.108).

The impact of the fiscal crisis may accelerate this concentrative dynamic inherent in corporatist arrangements. The state, compelled to retreat from some of its functions and to liberalise part of the economy, tends to favour the strategically most important groups and criteria of relatively equitable distribution of wealth and welfare concerns lose in importance. This increasing coalescence of interests between the most powerful and influential constituencies marginalises other sections of society. Ultimately this may translate into the emergence of class interests. Initially individual citizens are likely to continue to express their demands and interests through the established mechanisms of interest articulation. However, with the prolongment of a fiscal crisis and the continuous exclusionary practices, these vertical structures of interest mediation are likely to become less and less representative and effective. Gradually it is likely that civil society groups emerge and interests will be represented in civil society organisations (provided they are allowed to operate).

## **Margins of Political Dissent - The Role of Civil Society**

Social stratification along class lines and class consciousness has often been cited as an important pre-requisite for the emergence of civil society. An autonomous civil society remains weak as long as patronage networks continue to dominate state-society relations. Al-Sayyid contended that civil society is absent in societies where class divisions are of relatively recent origin and influenced by ethnic and tribal ties (Al-Sayyid, 1995). The distributive nature of the state inhibits the emergence of a class-based society and of political interest groups concentrating on the economic interests of the citizens. Consequently, opposition groups - if they do develop - tend to reflect cultural or ideological orientations.

A change in the economic fortunes of a country, economic liberalisation efforts as well as regional events might provide an inducement for the enlargement of political space and a re-negotiation of the state's 'pact' with society and thereby may facilitate the emergence of civil society. Enlarging the margins of manoeuvre for civil society institutions can represent one way in which the ruling elite can strengthen the consensual basis of its hegemony. A higher level of political and socio-economic inclusion may be able to compensate for the lower material benefits and may ultimately postpone or even avert the translation of a fiscal crisis into a political crisis.

However, inclusionary practices and the enlargement of the scope of manoeuvre for civil society can be potentially risky for the ruling elite. Civil society has a dual function, it is both the forum for the organisation and dissemination of the hegemonic ideology through religious institutions or the education system as well as the space where opposition can mobilise and organise and, if circumstances allow it, to form a counter hegemony. If civil society groups have no margins to develop due to a restricted public space, the former function is more prominent. An examination of the notion, evolution and composition of civil society and its role and an analysis of the margins of manoeuvre or margins of political dissent will contribute to a better understanding of the options and strategies available to the state and society in periods of fiscal stringency.

The concept of civil society has recently received much attention in the discussions about the transition of authoritarian regimes, especially in the context of Eastern Europe. Augustus Norton described civil society as: "the icon of the global trend of

democratization”, as the home of democracy in Western societies, “where a melange of groups, associations, clubs, guilds, syndicates, federations, unions, parties, and groups come together to provide a buffer between state and citizen” (Norton, 1995, p.211). The term ‘civil society’ is used by many social scientist with quite different connotations. Hegel, on whose definition Marx’s concept of civil society is based, defined civil society (*bürgerliche Gesellschaft*) as the domain of individuals who have left the basic unity of social organisation, the family, to enter into economic competition. His conception of civil society is characterised by self-interest and divisiveness and is contrasted with the state or political society. According to Hegel only the state is able to ensure that universal interests and unity can be assured within a polity. Within the Marxist tradition civil society has a negative connotation, according to Marx “civil society arose from the destruction of medieval society... The old bonds of privilege were replaced by the selfish needs of atomistic individuals separated from each other and from the community” (Bottomore, 1995, pp.82-83). Gramsci, as discussed above, rejected this distinction between state and civil society by emphasising the interrelationship between the two, i.e. the state containing elements of the civil society. Thus civil society is not conceived as the sphere of individualism but has the capacity to represent corporate interests.

While Hegel regarded civil society as an essential component in the process of state formation, Ghassan Salamé wondered how this definition could be adjusted to countries where the administrative state apparatuses were set up before a civil society could evolve. Some sociologists have therefore distinguished between a traditional and a modern civil society, the former giving rise to the traditional states and the latter coming into being through the state. This notion is similar to the discussion of the traditional and modern *asabiyya*, discussed above. Salamé questioned if it is possible to talk of a co-existence, superimposition or rivalry of the two societies, the one authentic and the other one an artifact (Salamé, 1994, p.12).

Mustapha Al-Sayyid suggested several prerequisites for the development of civil society acknowledging that they represent an ideal type of civil society, at the moment non-existent in the Arab World and many other countries. As mentioned above, the first prerequisite for the existence of civil society is the emergence of class divisions as the basis for social organisation and a certain class consciousness. Secondly, the state needs to follow a certain set of regulations in its interaction with society and grant them



independent space for action. Both state and society accept the right of dissent by other citizens. Furthermore individuals act on the basis of shared interests in a manner that does not replicate primordial ties. Civil society is not necessarily equivalent to the whole society and the different agents and institutions of civil society enjoy different levels of influence and access to rulers (Al-Sayyid, 1995, p.136). Other analysts have added the dimension of a shared sense of identity or citizenship with rights and responsibilities for the individual citizen as another prerequisite. According to this view citizenship 'underpins civil society', a view that is closely connected to the notion of civility (Ayubi, 1995).

It remains an area of contention if it is useful to include the traditional groups within the civil society paradigm. Although the traditional *asabiyya* has changed its character through the impact of modernisation and urbanisation, it still shows attachment to primordial ties. For instance, membership in tribally or communally based formations remains ascriptive and not voluntary. Jill Crystal argued that ascriptively defined groups such as tribes or sects fulfil several functions, from aggregating demands to serving as a buffer against state power, hence could be considered part of 'civil society' (Crystal, 1996). While political parties, human rights organisations and trade unions are usually unanimously regarded as civil society organisations, a debate has arisen whether to include Islamist organisations within the civil society paradigm. Augustus Norton classified Islamist organisations as components of civil society in the Middle East (Norton, 1995, p.209), other analysts stressed the importance of the 'civil' nature of civil society, i.e. the acceptance and tolerance of different attitudes and world-views or respect of diverging religious inclinations. In the Saudi context this definition of civil society would exclude a number of newly emerging groups who often disseminate religiously narrow discourse and oppose the plurality of society.<sup>41</sup> The same criteria of tolerance has to be applied to the state, which has to be willing to accept oppositional elements within civil society, respect the civil and political rights of its citizens and should act as an impartial regulator among different groups.

In Saudi Arabia the nature of the political system and the narrow margins of dissent act deliberately in stifling the emergence of any independent groups. Ghassan Salamé described the nature of dissent and opposition in the Middle East as follows:

Outside the state, there was a situation of assumed exclusion (depoliticization) or rejection and then one closer to that of 'national' treason than legitimate opposition. In this the modern state was reproducing a highly traditional model, that of the *khuruj*, departure from the state, which was commonly presented by the regimes as sedition and rebellion, and which consequently incurred punishment. Prison and exile became the natural homes of all questioning of current policy, which was worn right down by the state apparatus; to oppose was to leave, to leave was to betray (Salamé, 1994, p.14).

The restrictive nature of the state also shows its reverberations in the economic realm, as Gwenn Okruhlik argued. For instance, potential investors do not have access to accurate data particularly pertaining to the size of the population, additionally, there is a lack of predictability and for the respect of the rule of law. She noted that: "[t]hese conditions are not attributable to rent *per se*, but rather to uncertainty in the investment environment which largely reflects the personal nature of the state. Any preference for trade reflects the political reality of insecurity" (Okruhlik, 1999, pp.308-309).

Luciani argued that the rentier nature of the state tends to favour the rise of Islamic opposition rather than other forms of opposition and observed that: "[i]n such a state there is always an opposition, but the opposition will not be any more democratic than the ruler. Democratic methods will not appear as the most promising means to achieving the desired goal, simply because all groups will have a particularistic agenda, which is not conducive to the organization of consensus and majority support" (Luciani, 1994, p.132). The political vocabulary of the Islamic groups is deeply rooted within the society's value system thus they can reach out to constituencies that are disillusioned with the current regime. Arguably it is unlikely that Islamic groups are able to form a coherent and viable counter hegemony, taking into account their often vague political strategies and economic policies. Nevertheless, they can make it increasingly difficult to govern the country and to mediate and balance the interests of all members of society. In the past Islam has provided an important factor of cohesion in Saudi Arabia especially in crisis situations and continues to be the main official legitimating source for the monarchy. In case of an erosion of this source of legitimacy due to various internal and external developments and *ergo* an erosion of the normative congruence of values between state and society, the availability of consensus-buying cash becomes more important for the maintenance of hegemony.

It was argued that a crisis occurs once the coercive aspect of hegemonic rule dominates. In a fiscal crisis the rentier state's ability to generate consent or at least pragmatic acceptance through the distribution of wealth and the provision of generous material benefits diminishes. To maintain its hegemony in a prolonged or structural (in Gramsci's terminology 'organic') crisis the state needs to re-define its 'pact' with society and to re-negotiate its hegemonic strategies. On the one hand, it can opt for political as well as economic inclusion of its citizens and thereby reinforce the consensual basis of its hegemony. On the other hand, it can resort to exclusionary tactics and thus rely increasingly on its coercive capacities. In the long term the latter strategy is likely to lead to a political crisis. This, however, does not mean that the breakdown of the system is imminent and that the current regime will be replaced by a counter hegemonic bloc. Such a crisis can last for decades, depending on the variables, discussed above, and the political strategies adopted by the various political actors, as well as on regional and international factors. As an individual's attitude towards a regime is often conditioned by the availability of a viable alternative, the existence and emergence of a cohesive and representative alternative hegemonic bloc will ultimately determine whether the current regime is able to retain its hegemony.

## NOTES

<sup>1</sup> Krimly, 1993 and 1999; Chaudhry, 1997; Okruhlik, 1999 and more generally Ayubi, 1995.

<sup>2</sup> Throughout the thesis, the terms 'state', 'regime', 'government' and 'ruling élite' are sometimes used interchangeably as all aspects of the state, government and regime are dominated by the House of Saud since the foundation of the Saudi Kingdom and the distinctions between them are blurred.

<sup>3</sup> Habermas, 1975, p.97 quoted from Weber, 1978, p. 213. For a detailed debate on legitimacy in the context of the Arab world see also Hudson, 1977.

<sup>4</sup> Gramsci positions civil society within the superstructural level as opposed to the Marxist view of civil society being rooted in the economic base. The distinction between base and superstructure serves mostly methodological purposes. In reality, particularly in late capitalist forms of social formations, base and superstructure overlap. As will be analysed later on, the boundary between 'private' and 'public' is often blurred because base and superstructure penetrate each other. See also last section of this chapter for definitions of civil society.

<sup>5</sup> Ransome, 1992, p.165; quote from Femia, 1981, p.116/121 emphasis in original.

<sup>6</sup> Although Gramsci in his description of the East meant Russia, it carries many similarities with the Arab states.

<sup>7</sup> Femia, 1981, p.28 see also Ransome, 1992, p.142.

<sup>8</sup> See also last section of this chapter and Chapter 6 for details on the margins of political dissent in the case of Saudi Arabia.

<sup>9</sup> Ransome, 1992, p.132 quote from Milliband, 1982, p.76.

<sup>10</sup> It has to be noted that Ikenberry and Kupchan in their article referred to hegemony in the international context but it carries many similarities with the domestic context.

<sup>11</sup> Marx and Engels in the Communist Manifesto (1985) argued that the executive of the state is little more than an instrument of the bourgeoisie. However later, particularly in the 18<sup>th</sup> Brumaire of Louis Bonaparte, Marx changed some of his views and argued that in the case of absolutist monarchies where there is no clear class hegemony, the state can acquire a certain degree of autonomy from the state. Neo-Marxist scholars that have focused more on the role of the state are, for instance, Althusser and Balibar, 1970, and Poulantzas, 1974. See also Skocpol, 1985, for a debate about the importance of the state.

<sup>12</sup> The 'Frankfurt School' refuses the determinist and positivist views of historical materialism, which focuses on a, by the economic base predetermined, path of historical development or on the emphasis on natural sciences as a framework for understanding history. It incorporated issues like patterns of culture, identity formation, 'communicative action' and the importance of family structures into the political economy approach (Held, 1980).

<sup>13</sup> This follows the Hegelian tradition of state analysis, i.e. the state as representing the general interest of society, above the particular interests of one segment of the population. Hegel assumed that the state was therefore able to overcome the schism between civil society and itself.

<sup>14</sup> The relevance of Offe's observations for the case study of Saudi Arabia will become particularly evident when analysing the rationale for the development plans and the distribution mechanisms. See in particular Chapter 3.

<sup>15</sup> State spending on welfare policies represents, according to Offe, the main contributory factor for fiscal difficulties, however other factors, for instance defence spending, or the impact of global economic and political changes significantly contribute to budget deficits.

<sup>16</sup> From Peter Hall, 1981, quoted in Held and Krieger, 1983, p.490.

This strategy, as will be seen in later chapters, can also be found in the Gulf countries where governments have manipulated and divided potential opposition groups by playing with the complicated cleavages of their societies within the institutional matrix of the state.

<sup>17</sup> The structure of advanced capitalist states is analysed by Habermas in three sub-systems, economic, political/administrative and socio-cultural, which are interdependent and include the mechanisms of socialisation.

<sup>18</sup> Chapters 3 and 4 will show that in the context of Saudi Arabia similar practices, like tribal, family or business links, can prevent the coalescence of interests.

<sup>19</sup> The concept of motivation formation and particularly the distinction between legitimation and motivation crisis is very complex and complicated hence only issues considered relevant for the argument will be addressed here. One other difficulty with Habermas' analysis is his treatment on a very abstract level and the lack of empirical studies using his approach.

<sup>20</sup> In the Arabian peninsula elements of pre-capitalist modes of production can be traced and continue to coexist with the rentier mode of production. The next section of this chapter and Chapter 2 will elaborate upon this concept.

<sup>21</sup> Habermas mentioned that it is difficult to analyse social evolution as a process of differentiation of social organisations or to classify societies according to increasing levels of complexity. He bases some of his arguments on Talcott Parson, 1966, but claims that by identifying and distinguishing between these principles of organisation he did not intend to substitute it for a theory of social evolution (Habermas, 1975, p.17).

<sup>22</sup> Quoted from Skocpol, 1979.

<sup>23</sup> It should be noted that the extended concept of mode of production will be applied here. In addition to relations and forces of production it takes into account the mechanisms of reproduction of particular modes of production. It thereby permits a view of modes of production not as static concepts, but instead emphasises the dynamics of the system. The restricted concept of modes of production, on the other hand, is limited to the forces and relations of production, i.e. the means of production (labour, natural resources, technology), property relations and relations of appropriation (Wolpe, 1980, p.8). For more detail see Althusser and Balibar, 1979, and Poulantzas, 1973.

<sup>24</sup> In the case of oil exporting countries the position within the international system is not a static, uni-directional dependent one, as the oil crisis of the 1970s demonstrated, rather one could speak of an interdependent relationship with the core countries. Nevertheless, this relationship is increasingly tilted in favour of the industrialised or core countries. In this context it is important to note that currently the developed countries profit much more from the revenues of oil through the imposition of taxes on oil imports than the oil producing states (Sarkis, 1993). Chapter 4 deals with the issue in more detail.

<sup>25</sup> Moghadam used two types of autonomy in her analysis- autonomy of the state from civil society on a domestic level and autonomy of the oil state from market forces.

<sup>26</sup> In case of Europe, for instance, the development of a fiscal infrastructure proved essential for the formation of the political system, "[t]he fiscal system was the 'transformer' of the economic infrastructure into political structure" (Snider, 1987, p. 467).

<sup>27</sup> Taylor preferred the term 'articulation' to 'coexistence' or 'combination' of modes of production to show that the interrelations of articulated modes have their 'structural determinants' when considering their reproductive requirements (Taylor, 1979, p.139).

<sup>28</sup> Quoted from Offe, 1992. In this context one has to distinguish between political liberalisation and democratisation. Political liberalisation implies the successive reduction of political and ideological coercion but does not necessarily entail political participation or control over public policies. In the definition provided by Rex Brynen political liberalisation "involves the expansion of public space through the recognition and protection of civil and political liberties, particularly those bearing upon the ability of citizens to engage in free political discourse and to freely organize in pursuit of common interests" (Brynen, 1995, p.3).

<sup>29</sup> Rentier states are sometimes also referred to as allocative states (Luciani, 1987) or distributive states (Delacroix, 1980). Rent as an economic phenomenon can take different forms, like worker remittances, investment returns, locational rent etc. The concept has been used among others by Adam Smith, Ricardo and Marx. For a discussion of Marx's use of rent see Nore, Peter and Turner, Teresa (1980). Hossein Mahdavi used the term 'rentier states' first for the case of Iran to describe "countries that receive on a regular basis substantial amounts of external rent. External rents are in turn defined as rentals paid by foreign individuals, concerns, or governments of a given country" (Mahdavi, 1970, p.30). For an interesting account of oil property relationships in the international division of labour and their transformation see Bina, 1985.

<sup>30</sup> Mann distinguished between two dimensions of state autonomy, infrastructural and despotic. Despotic power is independent of any institutional constraints or bargaining process with social groups, thus could be interpreted as the coercive aspect of hegemony (Mann, 1983, pp.187-213).

<sup>31</sup> The terms 'modernisation' and 'development' are used here in the way Samuel Huntington and Joan Nelson defined them, "[w]e will use the words 'modernization' or 'development' to refer to the overall processes of social, economic, intellectual, political, and cultural change that are associated with the movement of societies from relatively poor, rural, agrarian conditions to relatively affluent, urban, industrialized conditions... We will use the phrase 'socio-economic development' to refer to those portions of this overall process that involve urbanization, industrialization, commercialization of agriculture, media and communications development, diversification of the occupational structure, and related social processes, which are often subsumed under the two concepts 'economic development' and 'social mobilization'... We will use the phrase 'economic growth' to refer to the increase in overall

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economic wealth of society as measured, typically, by per capita gross domestic product". (Huntington and Nelson, 1976) quoted in Aldamer, 1995, p.23.

<sup>32</sup> The modes of interest mediation, described below, will be discussed on an analytical (explanatory and interpretative) level and as corollaries of a special mode of production or articulation of different modes of production, not as a normative desirable option. The corporatist form of interest mediation may represent an appropriate form of interest mediation under certain circumstances, yet it is not possible to believe in its superiority to the pluralist pattern as some corporatist theorist have done. For instance the corporatist paradigm is often associated with fascist type of regimes, for a detailed discussion on this issue see Scholten, 1987. For a discussion of the pluralist type of interest mediation see Cawson, 1986, pp. 27. Discussions about pluralism, which is premised on the distinction between public and private and which emphasises representative government, is not applicable to the case study and thus avoided here due to the limited space.

<sup>33</sup> For different definitions see especially Cawson, 1986, pp.22.

<sup>34</sup> See also Zureik, 1981, p.255. For similar argument for industrialised countries see Schmitter, 1977.

<sup>35</sup> For definition of consociationalism, see Scholten, 1987, p.4. Ayubi argued that the political practices in Saudi Arabia may be closer to consociational arrangements. For more details see Ayubi, 1995.

<sup>36</sup> In case of Saudi Arabia tribesmen are integrated into the National Guard, see Chapter 3.

<sup>37</sup> From O'Donnell, Guillermo, Schmitter and Whitehead, 1986, pp.37/38.

<sup>38</sup> The concept of *asabiyya* is also a main theme in Ibn Khaldoun's 'Muqaddima'. Ibn Khaldoun stated, "[n]atural authority is derived from a group feeling ('asabiyya') [acquired] through the constant overwhelming of competing parties. However, the condition for the continuation of this authority is for subservient parties to coalesce with the group that controls leadership" (Salamé, 1987, p.208). The concept of hegemony displays many similar features with Ibn Khaldoun's theory. For a study of his ideas and their relevance to the Saudi case see Krimly, 1993.

<sup>39</sup> Hopkins, 1988, p.255 and Crystal, 1996, p.273. Women are largely excluded from these mechanisms in Saudi Arabia due to their limited participation in the labour force. For more details see Chapter 6.

<sup>40</sup> Ayubi defined clientelism as the exchange of services and/or goods between people of unequal status (Ayubi, 1995, p.169).

<sup>41</sup> As will be seen in Chapter 6, some religious opposition movements have shown a clear bias towards the Shi'a minority in Saudi Arabia.

## **Chapter Two**

### **STATE FORMATION AND PRE-OIL ERA**

It is these shared traits and this total intellectual complexion which bring together the scattered parts of this very ancient pageant, comprising both a settled way of life and nomadism, subservience and rebellion, passing bands of raiders, and merchant and pilgrim caravans, the clamour of the markets and the silence of the desert, the intermingling of nomadism with holy war, of holy war with commerce, and of commerce with agriculture, interacting in a continuous, uninterrupted fusion (Al-Naqeeb, 1990, p. IXX).

The origins of Saudi Arabia's contemporary socio-political features can be traced back to the economic, social and political conditions prevailing in the pre-oil era. As the previous chapter alluded to, the Saudi state evolved, was shaped and established before the advent of the oil era in the 1950s and a full-scale incorporation into the international economy. "The Gulf is not petroleum" (Al-Naqeeb, 1990, p.2), as one commentator remarked, and contemporary developments and socio-political structures cannot be properly understood without examining the economic, social, religious and political characteristics of the pre-oil Arabian peninsula in the context of its geographical environment and international developments. The evolution of the Saudi state was shaped by an interaction and interdependency of the nomadic mode of production and the mercantile-tributary, largely urban-based, mode of production. For the pastoral nomads, the city represented an economic necessity by providing economic support, a market for animal products as well as religious leadership. In return, the nomadic tribes, in alliance with the urban leadership, ensured protection for the urban centres from raids. Both modes of production relied, with regional and temporal variations, on income from passing trade and pilgrim caravans.

The purpose of this chapter is not to provide an account of a chronology of historical events; a detailed and thorough discussion of the emergence of the chieftaincies is beyond the scope of this study. Instead, it will focus on a brief analysis of the main economic, social and political forces that determined the evolution and decline of the two Saudi chieftaincies in the 18<sup>th</sup> and 19<sup>th</sup> century and the formation of the third Saudi state. The first part discusses the economic aspects and the social stratification within the

different modes of production prevailing in the Arabian peninsula during the pre-oil era: the pastoral-nomadic mode of production and the tributary-mercantile mode of production.<sup>1</sup> As both modes of production coexisted and were heavily interdependent, emphasis will be accorded to elements of articulation of these two modes, to their regional variations and then to their respective influence during the various stages of the emergence of the state.

The second part of this chapter deals with the role of the religio-political alliance between the Al-Saud and Mohammed Abd Al-Wahhab and his descendants in the emergence of the first (1744-1822) and the second (1823-1891) Saudi chieftaincy. This will be followed by a brief discussion of the significance of tribal alliances in the process. As Ghassan Salamé has noted, it is remarkable that in a tribal society, one family, i.e. the Al-Saud, could reach such a prominent position (Salamé, 1980). Instrumental to the rise of the Saudi chieftaincies was the Unitarian movement of Abd al-Wahhab, which provided religious legitimation for the conquests and expansion of the Saudi domain. The Wahhabi movement also proved important for Abd Al-Aziz Bin Abdul Rahman Al-Saud's (henceforth: Ibn Saud) success in establishing and consolidating his rule over the territory that now constitutes Saudi Arabia. Nevertheless, the common perception that the third Saudi realm<sup>2</sup> represents merely a continuation of its predecessors, i.e. a combination of a revival of Wahhabism and its expansionist drive, underestimates the increasing importance of external factors and the significance of mercantile interests. The Wahhabi creed was not limited to the Al-Saud family and most of the Najdi tribes had embraced it; thus the consolidation of the Saudi empire depended also on other social forces both within and outside of the Kingdom. This chapter will show that purely religious motivations began to lose significance and came to be replaced by more pragmatic considerations conditioned by international but also internal factors. Tribal alliances, the creation of the Ikhwan settlements and the concomitant sedentarisation efforts of the nomads, as well as the co-operation with the commercial urban élite, became determinant factors for the success of Ibn Saud in establishing and consolidating his rule over the country. External factors, for instance the support of Britain and the waning influence of the Ottoman empire in the region, also assisted the House of Saud in bringing most of the Arabian peninsula under its domination.



The consolidation of Saudi rule over the newly conquered territories and the process of state formation posed a series of challenges. The area lacked a cohesive administrative structure and communication infrastructure and was marked by significant developmental discrepancies. Additionally, the country faced internal dissent and external hostilities (for example, from the Hashemites and the Yemeni Imam). For its revenue the third Saudi realm depended on pilgrimage and trade activities and, since the global economic crisis in the wake of W.W.I, increasingly on foreign subsidies. With closer international interaction, increased interdependency of the nomadic and sedentary populations generated by commercial activities, technological innovations, foreign support and state subsidies, the socio-economic structure of the country changed rapidly. This chapter therefore concludes with an analysis of the changing social structure after the creation of the Saudi state until the advent of the oil era. The beginning of the oil era is set here as the early 1950s since, although oil was found in commercial quantities in Saudi Arabia in 1938, large-scale oil exports did not commence until the 1950s.

## **THE FIRST (1744-1822) AND THE SECOND (1823-1891) SAUDI CHIEFTAINCY**

The first Saudi chieftaincy emerged from an alliance between Mohammed Bin Abdul Wahhab (1703-1792), a Najdi preacher and theologian, and Mohammed Bin Saud, the ruler of Dir'ayah in southern Najd.<sup>3</sup> Soon after the formation of the alliance, the Saudi-led forces set out to conquer the tribes of the Najd, converted them to the Wahhabi creed and then moved on to expand their realm. In 1795 Al-Hasa was conquered, in 1802 the forces succeeded in taking Mecca and by 1806 the first Saudi empire comprised most of contemporary Saudi Arabia plus large sections of what constitutes southern Iraq today. Their expansionist drive was soon regarded as a threat by neighbouring rulers, especially the Ottoman sultan, for whom the control of the two holiest Muslim cities was of paramount importance. Additionally, many inhabitants of the newly conquered territories were appalled by the atrocities committed by the Wahhabi forces at, for example, Karbala or Taif. In an initial, yet unsuccessful attempt, Suleiman Pasha, the Ottoman governor of Baghdad, tried to contain the movement. Later, further Ottoman expeditions were sent under the leadership of Muhammad Ali's son, which managed to drive the Saudis back to the Najd. In 1818 Dir'ayah, the Saudi headquarters and capital,

surrendered to the Ottomans and Abdullah, the head of the House of Saud, was captured and later executed in Constantinople while the rest of the family retreated to Riyadh.

The re-emergence of the House of Saud and the creation of the second chieftaincy proved to be a difficult and arduous process. The efforts of Turki Ibn Abdullah, the new head of the House of Saud, to reassert Saudi rule from Riyadh and to expand his dominance over Al-Hasa and the Persian Gulf regions, met again the resistance of the Ottomans, who had sent another expedition. In 1843 Turki's son Faisal finally managed to regain power in the Najd and subsequently in the Gulf region. After his death in 1867 the family was split over the question of succession, which, coinciding with the interference of the Ottomans, finally led to the decline of the Second Saudi chieftaincy. Saudi rule over Al-Hasa ended and an Ottoman garrison was re-established in 1871/72. The Al-Rashid family of Jabal Shammar under Muhammad Ibn Rashid ascended to the leadership in the Najd in 1891, the House of Saud, together with a few loyal supporters, was forced to retreat and some of its members migrated to Kuwait. The Kuwaiti exile was essential for the recapturing of Riyadh and the eventual re-establishment of Saudi rule over the region and the ascendancy of Ibn Saud. It was in Kuwait that Ibn Saud spent his formative years, became exposed to different ideas and met with international representatives which significantly shaped his political outlook (Goldberg, 1986, pp.30).

### **Modes of Production and their Articulation in the Pre-Oil Era**

Prior to the discovery of oil two modes of production prevailed in the Arabian peninsula: the pastoral-nomadic and the tributary-mercantile mode of production. Economic activities were heavily influenced by the ecological and geographical features of the region. The pre-state core areas of the Saudi realm, the Najd and al-Hasa were largely nomadic while the Hijaz had a more urban character with the tributary-mercantile mode of production being predominant.<sup>4</sup> The actual size or proportion of sedentary and nomadic groups is difficult to estimate as the population often shifted, depending on ecological factors, from 'pure' nomadic activities to sedentary farming or vice versa. The majority of the urban centres emerged along the most frequented trade routes while purely agricultural settlements had less significance. To varying degrees, both the pastoral-nomadic and the tributary-mercantile mode of production depended on mercantile or pilgrimage activities for their survival. The two modes of production

interacted heavily on the economic, political and social level and depended on each other for their reproduction; their interaction augmented with the growing significance of trade in the region. In return for *khuwwa* (protection money), the nomadic tribes guaranteed safe passage for trade and pilgrimage caravans through the territory under their control. To ensure this protection, political leaders of sedentary communities often formed alliances with the nomadic chiefs.

The economic activity of the pastoral mode of production is characterised by the predominance of animal husbandry as the main mean of subsistence. Means of production within a nomadic community's *dira* (grazing area), i.e. water and land, are used or owned collectively, while animals are owned individually by the different families. Organisational life within pastoral nomadism centres around kinship ties and social stratification is, to a large extent, egalitarian. A contemporary witness described the socio-economic and political realities of the nomadic population in the Najd as one characterised by freedom, equality and brotherhood: "[h]ere was a community living as our idealists have dreamed, without taxes, without police, without conscription, without compulsion of any kind, whose only law was public opinion, and whose only order a principle of honour" (Al-Naqeeb, 1990, p.67). The sheikh had little means of political coercion and few opportunities for economic exploitation of the tribal 'masses' and was thus compelled to rule by consensus and to balance the interests of the various family branches. The mobility of the tribes enabled particular units to withdraw and change loyalty in case of disagreements with the ruler or, alternatively, several important families could coalesce in their interests and depose the ruling sheikh. Ugo Fabietti observed that in a pastoral nomadic society, tribal identity is the ideological correlate of the form of communal exploitation of the natural resources, and represents a reflection of the level of political and ideological integration which serves to exploit the resources. Once interaction with sedentary populations occurs, and once the mechanisms of resource allocation are transformed, the tribal identity changes (Fabietti, 1982, p.189). While the mobility of the nomadic population allowed the tribes to control vast areas of land, they were not economically self-sufficient. Access to urban markets, for example, was essential for the needs of the nomadic population and also as a market for their animals. The productive discontinuity of pastoral nomadism, i.e. unreliable ecological conditions and the vulnerability of the animals, rendered survival co-dependent on raids of other tribes and protection moneys extracted from passing trade or pilgrim caravans. With little

margin for surplus extraction, the Bedouin became a consumer vis-à-vis the city (Ayubi, 1995, p.124). The reliance of the nomadic communities on a multi-resource economic system thus necessitated a close interaction with sedentary populations (Fabietti, 1982, p.187).

Despite the fact that collective ownership of land and water reduced the opportunities for the crystallisation of wealth differentiation, social stratification did exist within the tribal unit between those possessing camel or sheep herds, those who were fully nomadic and those who were semi-sedentary and farmed for part of their living. Larger wealth discrepancies, however, were not an inherent feature of the pastoral-nomadic mode of production but a function of externally derived surplus like protection moneys and hence a consequence of the articulation with other modes of production. Rayed Krimly argued that the inter- and intra-tribal social stratification and ideological differentiation was predominantly based on the differences in the capability to extract *khuwwa* rather than on the economic value of animal husbandry.<sup>5</sup> With the growing significance of trade and the incorporation of the Hijaz into the Saudi realm in the 1920s, the interaction between the pastoral-nomadic and the mercantile-tributary mode of production increased and wealth differentiation became more pronounced. Pastoral nomadism underwent further significant transformations after the formation of the Saudi state, as will be detailed later on. Its economic basis was largely destroyed, means of surplus extraction, such as raids or *khuwwa*, were abolished and subsistence came to be directly dependent on state allocations.

Faisal Aldamer argued that social stratification in the Arabian peninsula was not only determined according to wealth, education or fame, but according to lineage and genealogy. Society in the Najd was, and to some extent still is, divided according to notions of 'blood purity' into two main categories, 'ignoble' and 'noble'. Those considered 'ignoble' do not have political significance. Aldamer also emphasised that the most significant criterion for the establishment of political order in the Najd was nobility or blood purity rather than tribal solidarity. He maintained that proof of this argument can be found even today, for example, political culture does not permit those sons of Ibn Saud to succeed to the throne whose mothers are foreigners or of non-tribal origin.<sup>6</sup>

In the tributary-mercantile mode of production the main source of surplus extraction was derived from long distance trade, income from pilgrimage caravans and, to a lesser extent, from agriculture and, on the Gulf coast, from the pearling industry. The tributary-mercantile mode of production is based on *mudarabah* trade (traditional type of commercial activity), whereby a wholesale trader provides a peddling trader with capital in exchange for a share in his profits.<sup>7</sup> As a consequence of this economic structure, some kind of patron-client relationship between the peddling trader, the wholesale trader and the rest of the population or, on the Gulf coast, between the merchants and the pearl trader became slowly entrenched. This included a kind of political allegiance to the merchant's family in exchange for patronage (Al-Naqeeb, 1990, pp.57). The urban economies of the Arabian peninsula were characterised by the presence of high monetary circulation and the existence of financial institutions within a regional or international economic network. Means of production were largely privately owned and social stratification within the mercantile-tributary mode of production was pronounced. An economically and politically active class of merchants and sheikhs crystallised with whom the masses of the population maintained a 'semi-feudal' type of relationship (Rumaihi, 1980). This relationship pattern transcended to the individual families where the heads of the families that controlled the means of production disposed over great levy over lesser affluent members. In the agricultural sector relations of production followed a similar pattern. Land was not owned by the farmer but by a sheikh or merchant. Farmers could only use the land in return for a share of their harvest and often had to pay the rulers of the urban area taxation, and in case of a poor harvest, became indebted and ultimately could lose their private belongings. The small size of social groupings and the personal nature of economic relationships prevented, nevertheless, the emergence of a social or class consciousness and socio-economic inequalities remained relatively concealed (Rumaihi, 1980). On the political level, the tributary-mercantile mode of production was characterised by a centralised political authority and administration. Political leaders in sedentary communities disposed over coercive capabilities vis-à-vis their people. Leading merchants had considerable influence in the political sphere, sheikhs often used them to collect taxes (for example from the ships in the ports) which enabled the merchants to extract a share of economic surplus for themselves and to assume important socio-economic positions. In the Hijaz the merchants were particularly powerful and well organised, they held regular meetings to discuss economic issues and formed an active and officially recognised Chamber of Commerce.<sup>8</sup> Especially during the third Saudi realm

mercantile interests gained more political significance also in other regions like, for instance, Buraydah and Unayzah in the Najd.

Rayed Krimly maintained that the attempts of the Al-Saud and also the Al-Rashid family to establish a unified political structure in the Najd region were motivated by the economic necessity to protect the trade routes and towns from frequent raiding as well as by their determination to gain access to ports and coastal towns. They thus attempted to end the military and ideological dominance of pastoral nomadism in the region for the benefit of urban trade. As will be discussed later, the Al-Saud family relied on the Wahhabi doctrine, an ideology that favoured the urban Najdis over the 'discordant' nomads. On the one hand, they used the military power of the nomadic population but, on the other hand, they ultimately also terminated it (Krimly, 1993, pp.107). Far from being a tribal ideology, the Wahhabi ideology represented an urban response to the ideological domination of the pastoral nomadic mode of production in the Najd. Wahhabism thus catered far more to mercantile interests, for instance, it legitimated private ownership and established security for international trade routes by delegitimising and punishing raids (Krimly, 1993, p.117).

### **Wahhabism - The Unifying Role of Religion**

The Unitarian movement (Wahhabism)<sup>9</sup> proved to be a potent force in the expansion of the Saudi chieftaincy. It provided religious legitimation for the conquest of the Arabian peninsula and served as a means to inculcate the population with a supreme norm and unifying belief system. Ghassan Salamé described the role of Wahhabism as follows:

to make 'an absolute demarcation between an expanding polity and all its surroundings'. Once this line has been drawn, Wahhabism becomes a legitimizing ideology that helps to abrogate the old political (tribal) leaderships, to the benefit of one, unifying *ri'asa*; a tool to operate a gradual homogenization of the society, a new *iltiham* (coalescence) of the defeated tribes around one exclusive political center, largely and strongly held by the Sa'udi ruling family (Salamé, 1987, p.323).

Following the teachings of the Hanbali school of jurisprudence, Muhammad Ibn Abd Al-Wahhab (1703-1792) preached a puritan, strict form of Islam. He intended to purge Islam from the syncretistic, heretical and deviant customary beliefs and practices of the

Najdi Bedouins, and urged them to return to the 'right' path of Islam. A central pillar of Wahhabism is the call for unity (*tawhid*), a unity that transcended the 'un-Islamic' character of nomadic life and customs and that aimed for the establishment of a unified central state. To spread the creed to the 'idolators', to the Shi'a and other 'unbelievers' became thereby a religious duty. The unity of the *ummah* necessitated obedience to the authority of the ruler and a concomitant centralisation of authority in the Saudi sheikh. Wahhabi principles thus did not interfere with the regime of the chieftaincy as they accepted a temporal leader with absolute jurisdiction.<sup>10</sup> A member of the Al-Saud family retained the title of imam, a choice which was approved by the Al-Shaykh, the descendants of Abd Al-Wahhab (Kostiner, 1991, p.226). This attitude towards obedience is also reflected in a statement by Abd Al-Latif, a descendant of Abd Al-Wahhab, to an Ikhwan gathering: "[l]et God guard us from fitna (civil strife) and be kind to us. Sa'ud entered the town after a pledge. He came in possession of the wilaya by conquest. His orders were valid. There has to be obedience to him... An oppressive sultan is better than a continuous fitna" (Helms, 1981, p.106). Nevertheless, this does not imply that the allegiance of the *ulama* could or can be taken for granted, as Alexander Bligh has pointed out, their primary concern remains the preservation of the Wahhabi creed. For example, after the capture of Riyadh in 1891 Muhammad Abd al-Wahhab's grandson Abd Allah bin Abd al-Latif, the then religious head of the Al-Shaykh family, changed his loyalty to the Al-Rashids and moved to Ha'il, the capital of the Rashidi chieftaincy. Once Saudi forces recaptured the city he shifted his loyalty back to the Al-Saud family (Bligh, 1985, pp.44).

### **Tribes and Saudi Chieftaincies**

Ghassan Salamé maintained that: "[t]he Wahhabi call could not, of itself, create a kingdom" (Salamé, 1987, p.309). Adherence to the Wahhabi branch of Islam was not exclusive to the Al-Saud, the rival Rashidi family and most of the Najdi tribes had also adopted or at least tolerated it. Tribal *asabiyya* and the consent of the people came to be crucial elements for the emergence of the Saudi chieftaincies. The importance of the tribe in the process of the expansion of the Saudi domain derives from the significance attached to the tribal value system, the tribal *asabiyya*, and from the military power of the individual tribal units.<sup>11</sup> Christine Helms described this as follows:

The tribe is an interlocking segmentary system that naturally forms economic and military units. The sense of *asabiyya* that binds the tribal members in a set of reciprocal rights and obligations, the nature of authority vested in the sheikhs and the ability of tribes to ally with alien tribes extending an artificial, although realistic, rationale of kinship make the tribe a potentially valuable political and military tool (Helms, 1981, p.56).

Similarly, Altorki and Cole mentioned that: “[i]n the past (and informally at present) qabilah [tribe] provided rights of access to physical resources such as land and water. The qabilah also provided the right to protection and the maximal level for the organization of the feud and of defence and raiding” (Altorki and Cole, 1992, p.74). Tribal *asabiyya* required from the individual family units to put their weapons, horses, camels and fighters at the disposal of the tribal ruler in the event of a conflict.<sup>12</sup> During the first and the second Saudi chieftaincies tribal units constituted the majority of the forces fighting to expand the Saudi realm. On the other hand, tribal forces, as will be seen below, can prove difficult to control and alliances between and among tribes are often fragile and unstable, making hegemony of one family, clan or person difficult to maintain. The mobility of the Bedouins enabled them to remove themselves from the authority of a ruler and their military capacity enabled them to defend themselves against injustices. Allegiance was also determined by ecological factors, for example during droughts, the loyalty of the tribes frequently shifted to those rulers who controlled the more fertile grazing grounds. After the initial religious fervour had subsided and the material gains of the conquest decreased, the Saudi rulers frequently faced difficulties in ensuring the continued allegiance of the population partly because, as soon as Saudi rule was established, raids were abolished and the imposition of arbitrary taxes or levies caused discontent among the population. The confluence of the vacillating loyalty of the tribes as well as international and regional factors led to the decline of the first two Saudi realms. The declining fortunes of the Second Saudi chieftaincy can also partly be attributed to power struggles among the sons of Faisal Ibn Turki. As the subsequent section will show, Ibn Saud became more successful in consolidating the House of Saud’s rule because, while making use of some of the tribal characteristics, he also managed to curtail the independence of the individual tribal units and ultimately to focus their political loyalty on his person.



## FROM CHIEFTAINCY TO STATE - THE RISE OF THE THIRD SAUDI REALM

The recapture of Riyadh in 1902, the defeat of the Al-Rashids in Raudat Muhanna in 1906 and the subsequent expansion to Al-Hasa and other parts of the Arabian peninsula marked the rise of the third Saudi empire. After occupying the Rashidi chieftaincy in 1921 and conquering Asir, Ibn Saud concentrated on expanding his rule over the Hijaz. In 1924 Taif was brought under control, followed by the surrender of Mecca, Medina and finally Jeddah in 1925. By 1926 the Arabian peninsula, apart from the British controlled areas on the Gulf, Aden and Yemen, was under the domination of the Al-Saud, and Ibn Saud added the title of King of Hijaz to the one of Sultan of the Najd.

For the first and second Saudi realms the term 'chieftaincy' was used rather than 'state'. Although the adherence to the Wahhabi ideology provided a unifying element, no concomitant permanent centralised and cohesive political structure evolved during the first and second Saudi chieftaincies. Political power rested with the Al-Saud family and the urban based *ulama*; tribes were not part of the power structure nor did they hold significant positions (Kostiner, 1991, p.226). In the absence of institutional structures, a cohesive population and defined borders, it seems more appropriate to refer to the first and second realms as chieftaincies rather than states. Chieftaincies represent some form of intermediate political formation and exhibit to varying degrees characteristics of states, but relations between chief and society are, if at all, only rudimentarily institutionalised and the individual units dispose over a relatively high degree of economic and political autonomy (Khoury and Kostiner, 1991, p.8). The distinction between chieftaincy and kingship or state was already an important theme in Ibn Khaldoun's work. He noted: "[l]eadership means being a chieftain, and the leader is obeyed, but he has not power to force others to accept his rulings. Royal authority means superiority and the power to rule by force".<sup>13</sup> In the initial phase of the third Saudi realm, intertribal alliances remained fragile and the rule of Ibn Saud was highly personalised and non-institutionalised, thus also exhibited many features of a chieftaincy.<sup>14</sup>

## **Tribes and State Formation**

As Chapter 1 has already alluded to, the process of state formation was closely linked to the changes in the nature of *asabiyya*. This change is generated by the transformation of the role of the tribe vis-à-vis the central authority, which in turn is generated by the changing economic relations and articulations of modes of production. Before briefly examining the influence of tribes on the emergence of the Saudi state, it is important to define what is understood by the term. Tribes represent complex and fluid entities that encompass nomadic as well as sedentarised units.<sup>15</sup> Only if considered “as ideal types, tribes represent large kin groups organized and regulated according to ties of blood or family lineage” which seem incompatible with states. States “by contrast, are structures that exercise the ultimate monopoly of power in a given territory” (Khoury and Kostiner, 1991, p.4). Richard Tapper uses the following definition for tribes which caters better to the fluidity of tribal entities:

Tribe may be used loosely of a localised group in which kinship is the dominant idiom of organisation, and whose members consider themselves culturally distinct (in terms of customs, dialect or language, and origins); tribes are usually politically unified, though not necessarily under a central leader, both features being commonly attributable to interaction with states. Such tribes also form parts of larger, usually regional, political structures of tribes of similar kinds; they do not usually relate directly with the state, but only through these intermediate structures (Khoury and Kostiner, 1991, p.5).

Khoury and Kostiner described the transformation in the relationship between state and tribe as follows:

The strength or viability of the state, that is, its ‘stateness’, can change over time in terms of its ability to govern, enforce laws, and accommodate pluralism, social mobility, and political representation. Hence, as their level of stateness changes over time, states accommodate tribes in varying degrees of social integration and political participation. As tribes also change over time and form a variety of social categories within a state, they maintain varying levels of autonomy and subordination. Tribes and states thus form a dialectical symbiosis: they mingle and sustain each other; each part changes owing to the other’s influence, and sometimes they seek to destroy one another. The nature of this dialectic emanates not only from tribal military prowess and political organization but also from tribal values and lifestyles and the wide range of influences they exert on society (Khoury and Kostiner, 1991, p.7).

The emphasis on the role of religion as a factor of cohesion and unity in Saudi Arabia magnified the role of the urban centres. As mentioned in the first part of this chapter, the Wahhabi movement represented mercantile interests far more than those of pastoral nomads, which became particularly noticeable during the expansion of the third Saudi realm and the policies of Ibn Saud towards the Bedouin communities and the Ikhwan movement. The proselytising fervour of the Wahhabi clerics was initially directed at the urban areas of the Najd, then at the surrounding Bedouin towns and tribes (Helms, 1981, p.113). The Wahhabi *ulama* consisted mainly of the urban élites of the Najd, and most preachers sent to the nomadic tribes came either from sedentary communities or were trained in the religious schools in the towns.

Ibn Saud's approach and relationship to the Wahhabi movement differed significantly from the previous two Saudi chieftaincies. Mordechai Abir maintained that, contrary to the *jihads* of the previous centuries, the efforts of Ibn Saud to 'revive' the Wahhabiyya at the end of the nineteenth century were to a large extent motivated by the wish to re-establish the Saudi domination over the area (Abir, 1993, p.4). The transformation of the region's economic base, the growing importance of trade and the interaction of sedentary and nomadic populations had also changed the underlying socio-economic motivations for the expansion of the Saudi realm. As Tim Niblock contended:

The activities of the muwahhidun early in this century in spreading and reinforcing the fundamentalist teachings of Ibn Abd al-Wahhab through the greater part of the Arabian peninsula, far from constituting a simple reversion to the eighteenth or perhaps seventh century, were closely linked to the formation of a political structure which responded to the changing conditions wrought by increased Western economic and political involvement in the area and which was relevant for the protection and expansion of commerce (Niblock, 1982, p.76).

The mechanisms applied - directly or indirectly - to link the tribal elements to the central authority varied over time and became gradually more sophisticated. Inter-marriage with different nomadic and sedentary families helped to bind many tribes to the House of Saud and broadened its power base. Socio-economic incentives also assumed an important role in ensuring loyalty of the tribes, initially through generous allowances of booty, later through subsidies and jobs in the emerging state and military apparatuses. The subsidies often amounted to a high proportion of the state's expenditures and were either given to

the leading sheikhs or, especially later on, directly to the Bedouins through employment in the White Guard or agricultural subsidies.

It is commonly assumed that with the formation of the Ikhwan, Ibn Saud intended to curb the independence, aggressiveness and military prowess of the Bedouin tribes.<sup>16</sup> The population of the Ikhwan settlements (*hujar*) was composed of members from different tribes. It was hoped that this 'cohabitation' would alter the focus of solidarity and loyalty of the individual and that their loyalty would shift from the tribe of origin to a supratribal, more localised and eventually national loyalty, a process that was significantly enhanced by the unifying force of religion. Many sources attribute the success of Ibn Saud to expand his rule over the Rashidi state, Al-Hasa, Asir and the Hijaz to the assistance of the Ikhwan forces, yet others disputed the significance of their military role as they did not constitute the majority of the forces which accomplished the Saudi conquests.<sup>17</sup> More important were other sedentarised communities and the merchant communities, as will be seen later on.

Kostiner argued that in the Ikhwan settlements the superimposition of sedentarism and religious revivalism on the tribal structure led to unintended results and ultimately created a movement difficult to regulate and control (Kostiner, 1985). At the inception of the movement their religious fervour was primarily concerned with conquest, proselytism and the expansion of the Saudi domain, while spoils from plunder and pillages of belongings of infidels provided additional motivations to participate. Soon the expansionist drive of the Ikhwan forces strained the relations with the imperial powers in the Gulf and threatened the emerging state's international standing and recognition. Their proselytising fervour also caused alienation among the conquered populations. Furthermore their non-traditional position in the power structure generated inter-élite conflicts with the *ulama* and the Saudi family.<sup>18</sup> Relations between the Ikhwan and Ibn Saud became ambivalent in the 1910s and further deteriorated after the conquest of the Hijaz. Serious clashes occurred in 1927 and 1929, and in 1930 Ibn Sa'ud succeeded in defeating the Ikhwan forces.

The importance of the transformation of the socio-economic conditions of the tribes is often underestimated in analyses of the third Saudi realm and the Ikhwan movement. While the Ikhwan forces were "ideologically committed to the kingdom as long as it

served God” (Salamé, 1987, p.311), their loyalty was also motivated by socio-economic considerations. The Ikhwan villages and towns were dependent on contributions of Ibn Saud for their survival. Consequently, due to their lack of economic self-sufficiency, the coercive capabilities of the central authority over the nomads increased. In 1925 raiding was officially forbidden (Niblock, 1982, p.91) and a law was issued that abolished the *dirta* system, marking the beginning of a programme of dispossession of tribal lands. This law not only changed the migration patterns of the nomadic population, but also altered the internal mechanisms of the tribal units and their relations to the centre, i.e. the state, and to other tribes. Previously, the exploitation of the sparse resources, the access to different *diras* and the grazing rights had necessitated a practice of agreements and alliances between the tribes, a practice that slowly came to be replaced by an all-embracing, centralised authority disposing over the allocation of resources.<sup>19</sup> This process not only curbed the political independence of the tribes but also affected their internal solidarity and cohesion. Once the collective right of access to land and water was ‘privatised’ social differentiation increased. Donald Cole argued that the individual appropriation of resources within a tribal territory and state-directed land distribution measures introduced an element of disturbance into the Bedouin communities. Differences of status, particularly between the tribal chief and the masses, became more pronounced. Tribal leaders were in a more favourable position to use their connections to the central authority and thereby gained privileges in appropriating the resources allocated by the government (Cole, 1982). Additionally, technical innovations and the introduction of motorised transport altered the range of access and freedom of movement which had a profound impact on the daily life of the Bedouins. Subsistence gradually became dependent on other factors than the exploitation of natural resources, a process that was further accelerated after the advent of the oil era as the following chapter will illustrate.

Many authors have noted that the Ikhwan movement in its later phase came to represent a movement of last defence of the nomadic population against a state that was more and more encroaching on their traditional life-style and eroding their political and military significance and influence.<sup>20</sup> The conflict between Ibn Saud and the Ikhwan mirrored a struggle over the future course of the state and was a reaction to the aforementioned transformations of the socio-economic realities. This conflict assumed several dimensions:

a conflict between a secular mulk and religious zeal. It was a battle pitting an urban-based, urban-supported rulership against mainly Bedouin troops. It was, third, a fight between two different coalitions of tribes... the 'Ajman or 'Utayba. It was, finally, a confrontation between a self-centered military/religious force, and a mulk which was by then aware that its stability would depend more on the recognition and support of the dominant world forces than on its own poorly equipped Bedouin troops (Salamé, 1987, p.312).

With the defeat of the Ikhwan in 1929/1930 the nomadic tribal element was significantly weakened as a political force (Kostiner, 1985, p.320). The Ikhwan settlements declined and their inhabitants either adopted the nomadic way of life again, migrated to the cities or were gradually absorbed into the newly created White Guard. Nevertheless, the conflict between the nomadic population and the central authority continues to have its impact today, for example, it was still traceable in the Mecca revolt of 1979. The deliberate sedentarisation methods can erode the beneficial tribal characteristics and ultimately a valuable source of support for the ruling family. Ghassan Salamé summarised the consequences as follows: "[t]he experience of the hijra demonstrated the unrealistic nature of intertribal integration schemes, especially in a society where political power is maintained by internal tribal cohesion. The royal family has been content to institute a supratribal order that does not profoundly affect traditional alliances and that could one day turn against the royal family itself" (Salamé, 1980, p.14). The contemporary repercussions of the conflict will be discussed in a later chapter, the following part turns its attention to the significance of the urban centres for the emergence of the Saudi state.

### **Mercantile Interests and the Importance of the City**

It was when chiefdoms established themselves in cities and drew on urban financial and human resources that they became something different. Expansion led to the incorporation of new populations, territories, and sources of wealth in a chiefdom; consequently, tribal society became increasingly stratified. In such circumstances political and economic power might become centralized in the hands of the chiefs and emerging regional elites, who were often linked to him by a mix of kinship and socioeconomic ties. The demands of warfare, distribution, and trade created the need for centralized control, as distinct from centralized management (Khoury and Kostiner, 1991, p.11).

Despite its origins in the Najd, the least developed and least urban region, the Saudi state was, to a large extent, shaped by an urban and sedentary nature. The importance of trade for the survival of pastoral nomadic communities as well as for the urban economy facilitated and required the establishment of a more centralised authority. The smooth conduct of trade necessitated a guarantee for the safety and security of trade routes, thus co-operation between the urban rulers and the chiefs of the Bedouin tribes became an economic necessity. This process had important repercussions on the socio-political structure of the Arabian peninsula. The tribal leadership became political agents and intermediaries through the collection, handling and distribution of protection levies from the trade caravans. The financial support of the merchants of the Najd and those of the regions subsequently brought under Saudi control became instrumental for the successful Saudi expansion and consolidation. Tim Niblock argued that the driving force in the emergence of the state were the urban social formations:

Despite the prominent military role played by bedouin (and ex-bedouin), the establishment and expansion of the Saudi state was dependent primarily upon the initiative, leadership and support of townsmen. While the needs and objectives which account for the involvement of townsmen were varied, the interests of commerce were a crucial component...The Saudi Arabian state from 1926...up to 1947 (when oil revenues began significantly to transform the economy)...involved a significant role being given to domestic commercial interests (Niblock, 1982, p.77).

He also argued that, due to the significance attributed to mercantile interests, “even at the outset a ‘modernising element’ was both present and prominent: an element which linked the area to the economy of the industrialised world and helped to incorporate the Arabian peninsula into the international economic system” (Niblock, 1982, p.78). Mercantile interests gained in importance especially after the incorporation of the Hijaz into the Saudi dominion. Conscious that the financial support of the merchants and the pilgrimage revenues represented an important source of income, Ibn Saud was careful not to antagonise the local population and sought the support of the powerful Hijazi commercial élite. This was all the more essential as close links between commercial interests and the local political leadership existed, for instance, the leading families of the towns and villages, the merchants and also the Bedouin tribal leadership were closely connected and the merchants occupied important positions in the administrative apparatus of the Hijazi state.<sup>21</sup> “By relying on regional tranquillity and a strong

government, Ibn Sa'ud and his aides apparently aimed at turning the Saudi state into a center of pilgrimage and trade facilitated by a Hijazi urban elite" (Kostiner, 1991, p.234). In the Hijaz a unified political structure had existed for centuries (the sharif had ruled from ca.1200 until 1924), it had a central administration and an annual budget since 1860, an education system, an elected city council, a constitution and a regular army and police force. Furthermore, it had been in contact with other countries through its trade activities and the influx of pilgrims. The incorporation of the Hijaz "shaped the attitudes and perspectives of the House of Saud, and was no less a determinant of the course of development than were austere religious belief and practice, or the physical environment of Nejd, the heart of Arabia and the Saudi homeland" (Malone, 1980, p.20-21). Ibn Saud adopted a policy of gradual integration of the Hijaz, often the concern for the merchant élite was very important and in some incidences even took precedence over religious concerns of the Wahhabi *ulama*.<sup>22</sup> In the early years of the Saudi Kingdom Ibn Saud permitted the persistence of constitutional instruments in the Hijaz region, like the Consultative Council, the Fundamental Instructions of the Kingdom of Hijaz and the Council of Deputies, additionally, an Advisory Council was established in 1926 whose responsibilities were limited to regional concerns. Hopes that those institutions would evolve into nation-wide instruments never materialised and their influence subsided after the consolidation of the Al-Saud rule over the entire country and the full integration of the Hijaz into the Saudi state. The Advisory Council was succeeded by a Council of Deputies in 1931 but ceased to exist in 1953, and local autonomy gradually eroded.

### **International Factors - The Confluence of Interests**

The previous sections have emphasised the internal factors influencing the process of state formation, yet foreign interests and interference also had an important impact on the evolution of the Saudi polity. The administrative, political and security related challenges posed by the expansion of the state could only be solved with the assistance of outside forces. The confluence of interests of Britain and the waning influence of the Ottoman empire in the region all contributed to the success of Ibn Saud. In 1914 Britain, for example, signed a treaty in which Ibn Saud agreed to cede part of the control over foreign policy issues to Britain in return for the recognition of Saudi sovereignty over the Najd and an annual subsidy. Socio-economic transformations engendered by Britain's role in the region were, arguably, more important in shaping the nature of the Saudi



polity than a direct military interference would have been. Due to an increasing influence of Britain and the rise of maritime trade, traditional long distance trade began to decline in the second half of the 19th century. Khaldoun Al-Naqeeb argued that British influence, the 'Pax Britannica', engendered the collapse of what he termed the 'natural state economy', i.e. an economy based on *mudarabah* trade. The economy of the Arabian peninsula was incorporated into the international economic system in a subordinate position. As a result, market forces slipped outside the control of the traditional economic centres and the main ports came under the control of the British and the European powers, which assured for themselves a monopoly over strategic commodities. The *mudarabah* type of trade relations were gradually superseded by a trade system based on local agents and the monopolisation of local representation of foreign companies. Al-Naqeeb maintained that in the Arabian peninsula: "European ascendancy was thus not only a military ascendancy, but also basically economic and organizational-institutional" (Al-Naqeeb, 1990, p.51). The process of integration into the regional economy and the concomitant interdependency engendered "the transfer of the political centre of gravity in the region from the commercial ports to the tribal interior, and consequently the appearance of the sectarian-tribal structure of society which accompanied the emergence of the new states after World War I and the division of the Arab East on that basis" (Al-Naqeeb, 1990, p.51). Al-Naqeeb summarised the impact of the support of foreign powers on the emerging Gulf states as follows:

the provision of outside protection for the rulers and the consolidation of authority in the hands of the ruling families brought down the tribal elites and thus obstructed the structural restrictions and pressures as forces opposed to the general trend in the political system of the 'natural state' which worked to restrict the authority of the ruler. It likewise created for rulers alternate sources of income instead of the booty which they customarily obtained by raiding, robbing and pillaging; for the taxes and dues levied on artisan crafts, flocks, trade and especially customs dues, which represented fixed sources of income, could continually be increased. In some instances when the ruler could not find sufficient alternative income, the colonial administration participated in financing him... (Al-Naqeeb, 1990, pp.62-63).

## FROM THE CREATION OF THE STATE UNTIL THE ADVENT OF THE OIL ERA (1932- 1950)

When in 1932 the Kingdom of Saudi Arabia was officially proclaimed, it faced many difficulties. Initially, the challenges were mostly security related: the safety of the pilgrimage and trade routes had to be guaranteed, furthermore, the country had to be defended against antagonistic neighbouring regimes, like the Hashemites in Transjordan and the Yemenis in the South, and internally against irredentist forces and dispersed Ikhwan units. A centralised administrative apparatus became increasingly important, borders had to be demarcated and relations with neighbouring countries institutionalised. At its inception the country was plagued by extreme poverty and a limited resource base, thus the discovery of oil and the ensuing oil royalties came to represent important factors for the consolidation of the Saudi rule. Until the end of W.W.II oil revenues remained, however, less significant than foreign assistance.

Supreme authority in the newly created Kingdom of Saudi Arabia was vested in the king and direct access to him came to represent the main basis for political influence. "As trusted mediator among all societal groups and as the architect of foreign policy, Ibn Sa'ud ceased being merely *primus inter pares*, as he and his ancestors had been in the former chieftaincies...To infuse his leadership position with substance, Ibn Sa'ud created an administration" (Kostiner, 1991, p.233). Faithful supporters of Ibn Saud were rewarded with high positions in the emerging governmental apparatus. Regional governors were appointed from allies or members of the Al-Saud family; the Jiluwi family, for instance, was given to rule Buraydah, Ha'il, Hufuf and the Eastern Province, while Jizan, Medina, Najran, Tabuk, Al-Jawf and the northern Hijaz were given to the Shudairi family. Tribal descentance or local power did no longer suffice as a source of political leverage. The new governors seldom had any ties to the region over which they ruled and the names of the provinces changed to geographical terms, Al-Hasa, for example, became the Eastern Province. In 1939 the Regulations of the Provincial Governors and Administrative Councils was issued that defined the competencies of the provinces and their governors. According to this law, governors constitute the highest administrative and executive power in the provinces and are directly responsible to the monarch. The law attributed considerable functions to the provincial governments but failed to delineate in a precise way the responsibilities and it was never applied at the

national level.<sup>23</sup> The ability of the individual governors to influence the decision-making process depended greatly on their personal status and their relations to the centre. Few tribes were represented in the governmental apparatus, which:

continued using chieftaincy tactics that focused on keeping tribes passive and loyal rather than channelling tribal power into new state-based organisations. Ibn Sa'ud (and Sa'ud after him) maintained the system of buying off tribes with subsidies. This system kept the tribes from intervening in state affairs yet ensured that they were sufficiently content and passive to be regarded as loyal (Khoury and Kostiner, 1991, p.239).

The Al-Saud family came to be represented at all levels of the decision-making process throughout the country. Faisal, for example, assumed the position of foreign minister and became responsible for diplomatic relations. Ibn Saud encouraged the establishment of religious institutions that supported him and that could be utilised as a means of control and for the formation of a common identity. At the same time, he seemed conscious about the potential dangers inherent in independent religious institutions, hence he tried to curb their autonomy. Strains between the regime and the *ulama* emerged over the pace of development and the introduction of technological innovations. The power of the *ulama* to influence decision-making declined gradually and in case of disagreements the opinion of the ruling family began to take precedence. Already in 1928, an observer remarked, "the Ulema are the power that holds the Sultan and his people together - the medium of control. But they seldom meddle in politics" (Bligh, 1985, p.37). The changing nature of the relationship between the religious establishment and the House of Saud will be dealt with in more detail in the final chapter.

The world economic crisis in the 1930s also showed its repercussions in Saudi Arabia, as a result pilgrimage and trade income dropped significantly. While at the beginning of the 20th century pilgrimage revenues had represented approximately 100,000 pounds annually and later had risen to 4 to 5 million pounds, they dropped by about 60 to 70 percent as a result of the global economic recession. The economic crisis coincided with the collapse of the pearl market due to the discovery of pearl cultures in Japan and was further aggravated by a severe drought in 1942. The Kingdom faced a serious financial crisis, in 1931/32, for example, salaries of officials could not be paid, loans from the merchants of Jeddah and the Government of India could not be repaid and domestic debts of the royal family rose rapidly (Krimly, 1993).

After oil was discovered in commercial quantities in neighbouring Bahrain in 1932, Western companies began to show increased interest in Saudi Arabia's resources. In 1933 Standard Oil of California (SOCAL) was awarded a concession in return for a cash advance of 50,000 pounds for future royalties.<sup>24</sup> Drilling started in 1935, yet oil could not be located in commercial quantities until 1938. SOCAL later sold half of its concession to Texas Oil (today TEXACO) and in 1944 SOCAL and TEXACO established the Arabian American Oil Company (ARAMCO). Further expansion of the oil industry was postponed and production almost completely closed down during W.W.II due to a severe shortage of personnel and building material. Despite the increased revenues from the oil explorations, the advance payments of the oil companies were not enough to ease the financial difficulties of the country. As a consequence, financial support from other countries became more important, by 1943 Saudi Arabia had already received approximately \$50 million from Britain alone. In 1942 Saudi Arabia became eligible for the lend-lease assistance (McHale, 1980, pp.628). A memorandum sent to Roosevelt reflected the significance and strategic importance attached to the country by the Americans. The memorandum argued that in case of the expiry of the lend-lease assistance, assistance would soon be "supplied by some other nation which might thus acquire a dominant position inimical to the welfare of Saudi Arabia and to the national interest of the US" (Malone, 1980, p.39). The oil companies and the Americans assisted the government in the provision of water and infrastructural development, in 1944 they distributed food to the starving population and made further advance payments to the government. As the subsequent chapter will show, although increasing oil revenues started to trickle into the country from the 1950s, it was not until the 1970s that the revenues were systematically invested in the country and distributed to the population.

With the increasing importance of oil, the socio-economic structure underwent significant changes and traditional means of subsistence and surplus extraction were gradually replaced by a system of subsidies and later by various distribution schemes, as detailed in the next chapter. The pastoral mode of production's economic structure disappeared while many of its socio-political correlates still have an impact on contemporary society and political structures. Socio-political alliances formed in the pre-oil era and patterns of patronage and clientelism continue to be important, particularly in the appointments to and in the functioning of the expanding bureaucracy. Additionally,

access to lucrative government contracts and wealth has often been determined by “the involvement in the conquests with Abdulaziz, personal service to the King, gift giving and financial loans to the government” (Okruhlik, 1992, p.27). Some of the richest families in Saudi Arabia today, like the Ali Reza family, Rashad Pharaon, Kashoggi or the Bin Jiluwi families have made their fortune in this way because “[a]ccess to wealth is passed from the original recipient to his son(s), and thus long term relationships endure” (Okruhlik, 1992, p.27). As already alluded to in the previous chapter, despite the disappearance of the traditional nomadic economy, urbanisation and the unifying effect of religion, tribal affiliations remain important. Traditional cultural values regarding social behaviour still represent a significant part of the individual’s value orientations, for instance, the tribal background remains very important in family issues like marriages. Officially, the regime still uses its tribal heritage as a basis of its ideology, emphasising continuity, while at the same time the relationship between the tribes and the state has significantly changed. Today the regime in Saudi Arabia has “created an ideology of Islam and tribalism to legitimate their rule domestically and internationally. The irony is that the symbols and rhetoric of tribalism and Islam have become more prominent at the same time that the institutions embodying these social formations have undergone drastic change” (Gause, 1994, p.11). Gregory Gause also stresses that while the political focus changed and shifted towards the state, loyalty is not necessarily shifting at the same time. For several decades after the creation of the Saudi state regional and tribal particularism continued to challenge the emerging state, in the Hijaz, for example, separatist groups were organised and in the north the Shammar tribe resisted the government in Riyadh. Saudi society remained dispersed and separated, and until the late 1960s unrest and discontent occasionally surfaced. How and why open dissent subsided will be the focus of discussion in the following chapter.

## NOTES

<sup>1</sup> As outlined in Chapter 1, mode of production is understood as the interaction of economic, social and political spheres.

<sup>2</sup> The third Saudi realm began in 1902 with the reconquest of Riyadh by the forces of Ibn Saud (see later section).

<sup>3</sup> For the distinction between the terms chieftaincy and state see later section of this chapter. A more detailed account of the historical events can be found, for example, in Goldberg, 1986 or Holden and Johns, 1982.

<sup>4</sup> There was also an ancient tradition of sedentary communities in some parts of the Najd, especially in Al-Qassim, like in Ha'il, Buraydah, Unayzah, Dir'ayah or al-Kharj (Altorki and Cole, 1992, p.76). While in the Najd the two modes of production were more interdependent, in the Hijaz the nomadic mode of production was more dependent on the commercial centres than *vice versa*.

<sup>5</sup> For a more thorough discussion of the economic and ecological factors determining social stratification within tribes see Krimly, 1993, p.79 and Helms, 1981.

<sup>6</sup> Altorki and Cole, however, cited several anthropological studies that show that tribal descent is a significant principle of socio-political organisation only for a small component of the inhabitants of the Arabian peninsula. Both theories are not discussed in detail here as they are not central to our argument. For further detail see Aldamer, 1995, pp.62, Thesinger, 1984, and Altorki and Cole, 1992, pp.71.

<sup>7</sup> For a detailed description of the characteristics of the mode of production see Krimly, 1993 and for description of *mudarabah* trade see Al-Naqeeb, 1990, pp.120.

<sup>8</sup> Krimly, 1993, p.99 and p.109; see also Ochsenwald, 1980, p.118. Ochsenwald mentioned that in 1855, 1857, 1859, 1862 and 1865 the Hijazi merchants, in connection with the Hashemite state and the local *ulama*, managed to defeat the British and Ottoman orders to end the slave trade several times. The significance of mercantile interests will also be dealt with later on in the thesis.

<sup>9</sup> Initially the term 'Wahhabism' was used by the movement's opponents, while the adherents of Abd Al-Wahhab preferred to call themselves Muwahhidun (Unitarians). For a further discussion of Wahhabism see Al-Yassini, 1985, pp.21.

<sup>10</sup> It was Ibn Taymiyya (1263-1328), from whom Abd Al-Wahhab drew some of his principles, that expressed the preference for a tyrant for a year rather than a single night without a ruler (Salamé, 1994, p.4). Ibn Taymiyya derived many ideas from Ibn Hanbal, who stressed that the main duty of a ruler is to observe and implement the *shari'a* and that a ruler can be considered legitimate only as long as he observes this duty (see also final chapter).

<sup>11</sup> A thorough analysis of the role of tribal units in the emergence of the state is beyond the scope of this study. For more detail see Aldamer, 1995 and also Khoury and Kostiner, 1991.

<sup>12</sup> For more detail on the main tribes involved in the conquest (Utaybah, Mutayr, Harb, Qahtan) see Aldamer, 1995, pp.66.

<sup>13</sup> Caton, 1991, p.87 from Ibn Khaldoun's *The Muqaddimah*, 1967, p.108.

<sup>14</sup> For further detail on the initial phase of the third Saudi realm see Holden and Johns, 1982 and article by Kostiner, 1991.

<sup>15</sup> See Altorki and Cole, 1992, p.75 for a more thorough discussion of the nomadic (*badiyah*) and sedentarised (*hadar*) nature of tribes.

<sup>16</sup> Ikhwan literally means 'brotherhood', a group of very religious Wahhabis. Al-Artawiyya, the first *hujar* (*hujar*, singular *hijra* - the name reminds of Prophet Mohammed's journey in 622 and thereby symbolises the Ikhwan's dedication to Islam) was established in 1912.

For the most comprehensive study on the Ikhwan movement see John Habib, 1978.

<sup>17</sup> For example, Mordechai Abir argued that "after 1913 the Ikhwan were principally responsible for Ibn Saud's conquests including Jabal Shammar, the Hijaz and Asir and became the mainstay of his regime" (Abir, 1993, p.4). A similar view was expressed by Salamé, 1987, p.311. For a diverging view see Kostiner, 1985, pp.298. Kostiner argued that in the Khurma and Turaba events, which were significant steps for the conquest of the Hijaz, the majority of forces came from the population of these towns. Those towns had little in common with the Ikhwan settlements. Similarly, in the military campaigns against the Rashidis in 1921, in Asir and in the Hijaz, the Ikhwan constituted only one element of Ibn Saud's forces.

<sup>18</sup> Kostiner, for instance, observed that, "in spite of the services they had rendered, the Ikhwan's way was both partisan and violent; they obstructed routine administrative, trading and grazing practices in

the state. The fact that they ascended to power as an 'extra establishment' force and were not part of the traditional Saudi governing groups, further damaged the Ikhwan's standing with such groups. The townspeople complained about them, the Ulama tried to minimize their influence and the district governors, notably Abdullah Ibn Jilawi in Ahsa', persecuted them" (Kostiner, 1985, p.309).

<sup>19</sup> Donald Cole argued that the detribalisation process was only successful when the mechanisms controlling the access of resources is transformed (Cole, 1982, p.192). A second attempt to sedentarise the nomadic population was initiated in the 1950s and 1960s with the introduction of large-scale agricultural schemes. This is discussed further in Chapter 3.

<sup>20</sup> Support for this argument can be found in the composition, tactics and demands of the movement (most of the movement came from Utayba, Mutayr, Ujman tribes). See Krimly, 1993, p.124 and Kostiner, 1985.

<sup>21</sup> Before the Saudi conquest in 1924 relations between King Hussein, the Hijazi ruler, and the merchants in the region became increasingly strained. The region faced an economic crisis: income from the annual pilgrimage had dropped as a result of W.W.I and the international recession, while the Arab revolt of the Sharif further drained the scarce resources. In opposition to the Sharif merchants formed the Hijaz Patriotic Party in 1924. The party had an elected 12 member executive committee, of which 10 were leading merchants, it demanded the abdication of the Sharif, a constitutional monarchy under the Sharif's son Ali and the independence of the Hijaz. It also sought the assistance of the British to oust the Sharif and for protection against a Saudi attack. The deteriorating relationship may also have been advantageous in Ibn Saud's efforts to oust the Sharif. An American counsel observed in 1923 that King Hussein "feels himself to be sure of his position, so far removed from the consequences of public opinion that no excesses are too great for him to consider, provided they are money getters. He lives to rob and the organisation of the Hejaz Kingdom today is a gigantic scheme for the wholesale fleecing of pilgrims" (Observations of the American Counsel in Aden 1923 quoted in McHale, 1980, p.625).

<sup>22</sup> In 1930 a British consul noted: "a tendency was remarked to increase Najdi influence in the Hijaz. The use of Najdi head-dress has now been imposed by Government order upon Hijazi officials. On the other hand, there has been no further attempt of late to impose strict Wahhabi principles. If anything, the tendency to comprise has been a little more in the ascendant" (Helms, 1981, p.274). Initially the non-Wahhabi *ulama* were permitted to maintain their judicial and religious positions and the political structure remained largely intact. A Saudi presence was ensured through the appointment of Faisal, Ibn Saud's son, as viceroy of the Hijaz.

<sup>23</sup> For more detail see Saleh, 1981, pp.306.

<sup>24</sup> Frank Holmes was the first to approach Ibn Saud for an oil concession in the 1920s, which was granted to his company Holmes' Eastern and General Syndicate. The concession lapsed once the company could not secure enough financial backing and capital for large scale exploration.

### **Chapter Three**

## **CONSENSUS BUILDING - DISTRIBUTION OF OIL WEALTH AS A FACTOR OF STABILITY**

Confronted with the major problem of building domestic order and regional stability, the Arab states tend to use economies as a way of solving strategic puzzles (Chatelus, 1987, p.112).

At the onset of the oil era in the 1950s and 1960s economic mismanagement, a rudimentary administrative apparatus and growing inequalities, combined with and encouraged by the pan-Arab movement, sparked off strikes and opposition among some segments of the population. In the 1970s, once the government initiated large-scale development schemes to alleviate the inequalities and to improve the living conditions of the general population, these tensions began to subside again. The oil wealth was distributed through a variety of different channels: the expansion of the public sector, the bureaucratic apparatus, the establishment of a welfare system and generous allocations and subsidies. This chapter will give particular attention to the government's spending and distribution patterns and its effects on the various social groups, political alliances and institutions.

The first part will trace the origins of economic planning and distribution policies in the early years of the oil era, followed by an analysis of the different distribution schemes. The second section examines the role of the state within the economy and the effects of the state's intervention on the different economic sectors. It provides a brief analysis of the change in the composition of the state's revenues, the erosion of its extractive capabilities and the growing importance of oil revenue; then it looks at the transformation of the sectoral distribution of non-oil GDP. As the principal recipient of oil revenue<sup>1</sup>, the state assumed the function of regulator and mediator between the economic sectors and thereby shaped the country's economic development. Economic expansion became primarily linked to state spending, the private sector was marginalised and limited to a few activities. While the economy expanded rapidly during the oil boom, the high rates of economic growth were mostly based on the recycling of oil revenues and on the rise of extensive consumerism rather than on an increase in productivity.



Since the Third Development Plan (1980-85), economic diversification, a reduction of the dependence on oil and an increased role for the private sector have been key features in Saudi development planning. Through generous subsidies and loans the government tried to encourage the private sector to take on more responsibilities. Nevertheless, as will be shown, until now the private sector has continued to show little interest in non-mercantile and non-financial activities, and diversification efforts remain predominantly state-controlled.

The last part of this chapter is dedicated to demonstrating how oil money and its distribution affected the different strata of society. Emphasis will not be given to a detailed analysis of the successes or shortcomings of the various development plans but to the transformation of the socio-economic and political aspects. Ultimately these changes will have the most significant impact on the political and on the economic development of the country in an era of declining revenues. This is particularly so because class stratification is to a large extent determined by state spending patterns, i.e. the state created or reconstituted classes or social groupings.

## **DISTRIBUTION MEASURES AS CRISIS AVOIDANCE STRATEGY**

### **- DEVELOPMENT PLANS AND THEIR 'HIDDEN AGENDA'**

In Saudi Arabia the vast resources accruing directly to the royal family were channelled only relatively late into coherent development and infrastructure schemes. Between 1931 and 1947 social services, for instance, increased only from 6.8 per cent to 7 per cent of the total government expenditure. Most of the country's infrastructure projects, like road construction or electricity provision, were planned and paid for by the oil companies, which also provided most of the employment opportunities. Government institutions were only rudimentarily developed and budgetary decisions often taken in an uncoordinated way. Over a third of the total expenditure was spent on the security apparatus, large amounts on luxury projects and on paying subsidies to tribal leaders.<sup>2</sup> The extent of state intrusion and intervention in the life of the average Saudi citizen was limited, only a small part of the population profited from the new wealth, while others, especially the rural population, saw their economic fortunes deteriorate. Tensions emerged as living conditions rapidly changed, particularly in the newly-created urban



areas, where the cost of living rose while housing facilities remained inadequate. Many Saudi workers in the new oil fields felt left out and discriminated against. The resulting tensions coincided with the emergence of new social groupings, “whose involvement in the process of oil production and whose professional training laid the basis for a consciousness which could be used to channel existing social discontents into new forms of political organisation” (Niblock, 1982, p.97).

In 1953 the discontent found its expression in strikes and demonstrations mainly by Aramco workers demanding wage increases, improved work conditions and the right to organise freely. Encouraged by the increasing appeal of pan-Arab nationalism and Nasser’s popularity, another wave of strikes followed in 1956 in which the workers became more politicised and vocal in their demands.<sup>3</sup> The immediate reaction of the government was to suppress and crush the strikes but eventually it agreed to raise the workers’ wages. Within the ruling family a debate over the direction of change emerged as a different strategy was required to assure long term stability. Some members of the royal family, mainly those associated with Prince Talal, emphasised the importance of political liberalisation. Others, whose ideas were eventually followed, advocated the introduction of widespread distribution of wealth through a coherent economic and social development plan including agricultural and industrial programmes while enhancing political and economic centralisation (Niblock, 1982, p.77). The deteriorating financial situation due to the profligacy and arbitrary spending, combined with internal Al-Saud struggles, resulted in a political crisis under King Saud, which ultimately led to his deposition in 1964 and the ascendance of King Faisal, who initiated large scale development programmes and a progressive social and economic modernisation of the country. Faisal also promised political reforms in his ‘Ten Point Programme’<sup>4</sup> yet, once tensions subsided, reform plans were shelved: the government continued to centralise the decision-making process and dismissed the most progressive royal and civilian members of the Council of Ministers.

As Chapter 6 will discuss in more detail, discontent in the 1950s and 1960s was not limited to Aramco workers; other centres of opposition emerged among the Shi’a community in the Eastern Province, the urban Hijazi middle class, but also among tribal forces in the northern Najd and the Eastern Province. Old sentiments against the domination of Al-Saud also rose again in Asir and among parts of the armed forces,

whose officers were exposed to Arab Nationalist ideas during their training abroad (Abir, 1993, p.34). Open discontent was substantially reduced once oil wealth percolated down and after some of the socio-economic inequalities were redressed. However, opposition to the regime persisted, albeit outside the existing system of interest articulation, and driven underground due to rigorous government repression.

Since 1970 five-year development plans have provided the basis for economic development and for the distribution of oil revenue. Setting targets for the expansion of the physical infrastructure and providing a framework for overall spending, they assist the government in determining and shaping the direction and pace of economic development and can thereby be utilised as instruments of eliciting consent. The Fourth Development Plan spells out the objectives of the government's economic policies:

It has been recognised, from the very beginning, that economic development is not an objective in itself; rather, it is merely an instrument for creating appropriate financial conditions, adequate living standards and a social environment within which the Saudi citizen can develop, and that supports social stability through preserving the community's genuine cultural and deep rooted Islamic identity. The distinguished progress of two decades of socio-economic change stands as evidence of the prudence and wisdom of this approach to development (Fourth Development Plan, 1985, p.71).

The government uses two main direct mechanisms of distributing oil revenue among its population: first through the provision of employment opportunities in the expanding bureaucracy, secondly by distributing goods and welfare services for free or at a low rate. The state has also embarked on more indirect ways of allocating oil rent, through, for example, large-scale land distribution schemes, loan programmes or granting government contracts. Another way of dispensing oil money to the population is the selling of oil outside the official market, a means that Shaw and Long termed "sub rosa distribution" (Shaw and Long, 1982, p.53). Generous subsidies for industrial and agricultural diversification schemes are also important means to redistribute oil wealth.

Almost all Saudi citizens benefited from the government's allocation measures, as a result, the living standards of the average Saudi improved significantly. Table 1 highlights the improvements achieved in the individual's life in some key areas, such as education and health, over the last forty years.

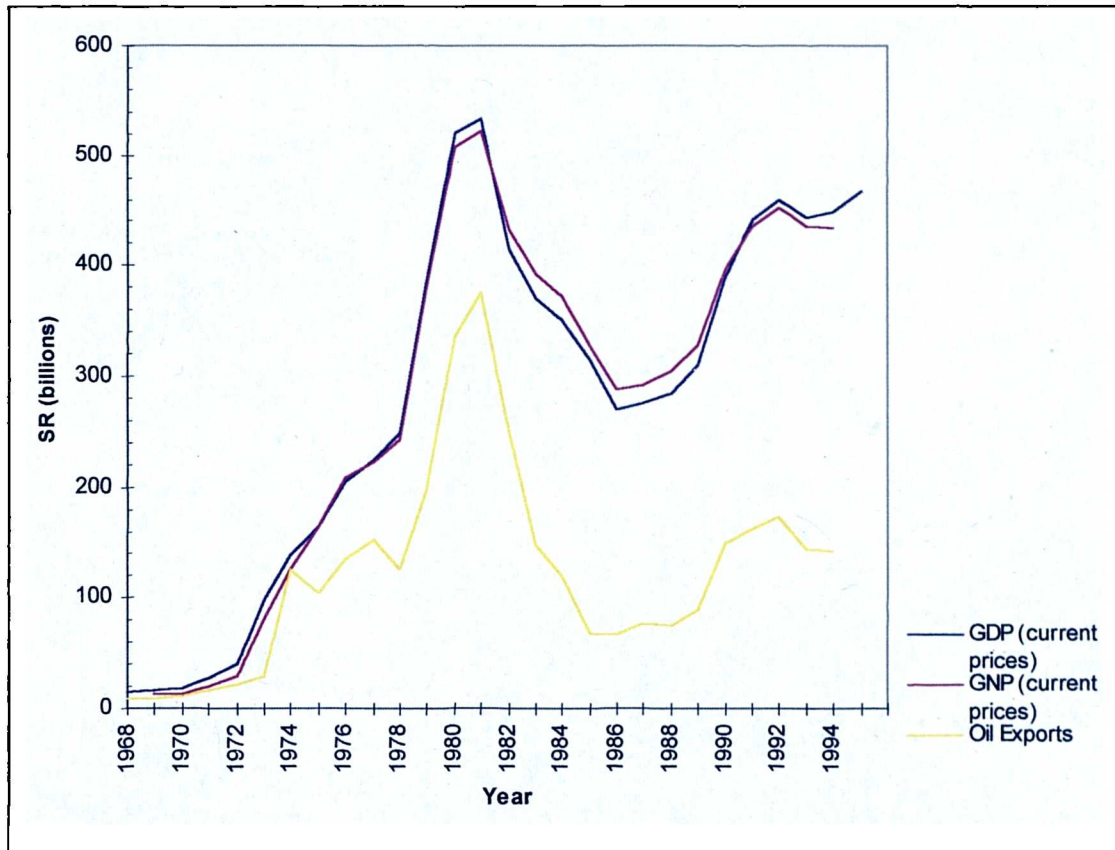
**Table1 SELECTED BASIC SOCIAL INDICATORS OF DEVELOPMENT (1960-1990)**

<b>INDICATOR</b>	<b>Unit</b>	<b>1960s</b>	<b>1970s</b>	<b>early 1990s</b>	<b>Reference Groups Mid-East, North Africa (1990s)</b>
<b>GNP per capita</b>	US \$	400	3,280	7,820	1,940
<b><u>POPULATION</u></b>	thousands	4,793	7,251	15,381	244,123
<b>urban population</b>	% of pop.	38.8	58.7	78.0	54.5
<b>growth rate total</b>	annual %	3.1	4.9	3.4	3.2
<b>urban growth rate</b>	annual %	7.9	8.4	4.3	4.5
<b><u>EDUCATION</u></b>					
<b>primary</b>	% of	24	58	76	97
<b>male</b>	School	36	72	81	105
<b>female</b>	age pop.	11	43	70	89
<b>illiteracy</b>	% of pop.	n/a	n/a	38	45
<b>female</b>	(age15+)			52	58
<b><u>HEALTH</u></b>					
<b>infant mortality</b>	per 1000 livebirths	148	87	32	60
<b>life expectancy female/male</b>	years	48	57	69	64
<b>access to health care/ pop. Per physician</b>	persons	9,398	n/a	656	1,668
<b>access to safe water</b>	% of pop.	n/a	64	93	82.4
<b><u>ENERGY</u></b>					
<b>consumption per capita</b>	kg of oil equivalent	1,759	2,348	5,033	1,137

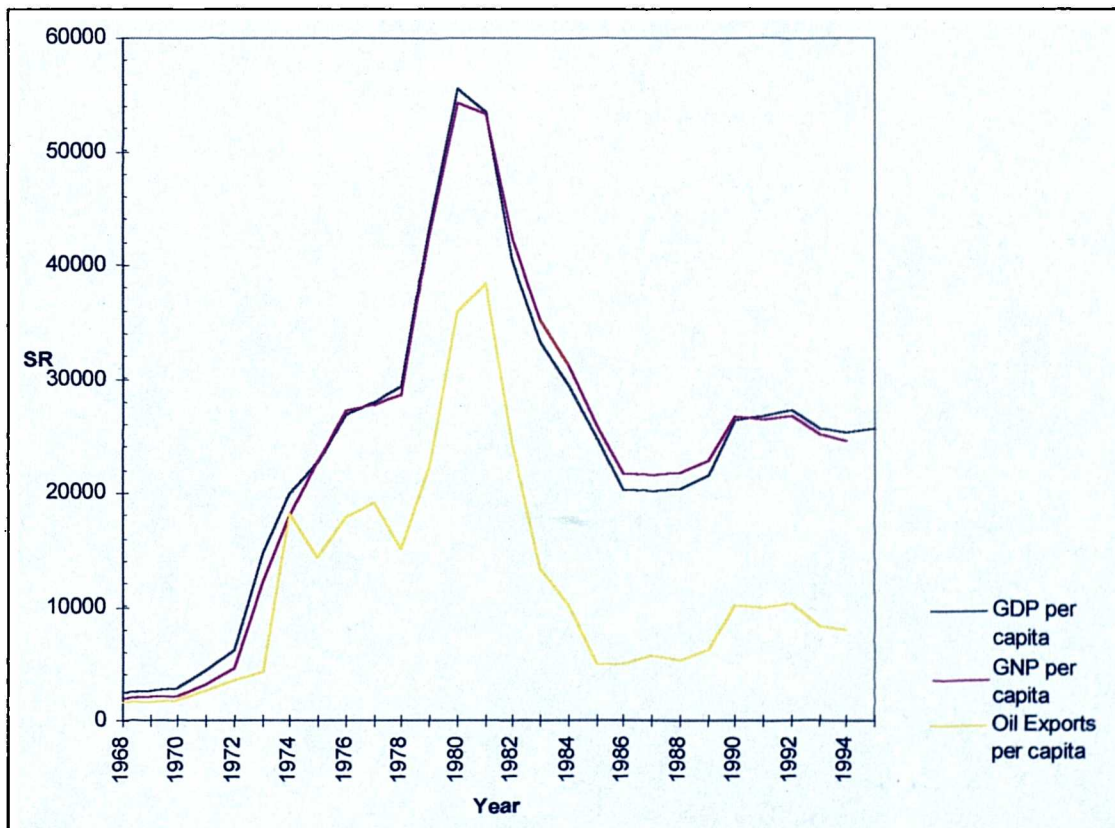
Source: Social Indicators of Development, World Bank, 1993, p.290

Graph 1 illustrates the increase in national income in general and Graph 2 demonstrates the changes in the per capita distribution of the Gross Domestic Product (GDP) and Gross National Product (GNP). Although GDP per capita as a measure of material well-being does not reflect income distribution within a society, it gives nonetheless an indication of the significant changes in revenue, and highlights the impact of the demographic aspect that will be elaborated upon in the fourth chapter. Until 1974 GNP was lower than GDP, then, as income from foreign assets augmented, GNP became higher than GDP, falling again once the government increasingly started to draw on its

Graph 1 GDP, GNP, OIL EXPORTS (1970-1995)



Graph 2 GDP, GNP, OIL EXPORTS PER CAPITA (1970-1995)



- The population figures (government figures) are based on the whole population, i.e. Saudis and expatriates
- See Statistical Appendix, Table III for exact figures of GDP, GNP and Oil Exports

foreign assets to compensate for falling oil revenues and to cover the expenses of the Kuwait crisis. GDP or GNP as a measure of national income can be misleading in countries where the sale of a non-renewable resource represents the predominant source of revenue and where current income is traded for an “irreversible liquidation of capital” (Stauffer, 1987). To arrive at a more accurate picture of national income, Thomas Stauffer suggested considering a ‘depletion allowance’ which “would subtract from the GDP the contribution of the wasting of a finite asset, leaving income otherwise generated from reproducible, non-wasting assets” (Stauffer, 1987, p.29). This depletion charge would reduce GDP in Saudi Arabia by almost 70 per cent.<sup>5</sup> To counter this depletion, the government would need to start saving at extremely high rates, which according to Askari should amount to approximately 60 per cent of the national product in productive capital or foreign assets. Saving rates, however, amounted to 59 per cent in 1981, 56 per cent in 1982 and dropped to 31 per cent in 1983 and 30 per cent in 1984 (Askari, 1990, pp.14).

To a certain extent the difference between GDP per capita and petroleum exports per capita, particularly noticeable after 1983, can give an indication of how much the effect of lower oil revenues could be cushioned by the government. GDP per capita decreased from a high of SR55,559 (at current prices) in 1980 to SR20,291 in 1986, representing a decline by 63 per cent. This decrease is far less dramatic than the decline in petroleum exports per capita in the same period, which fell by 86 per cent, from SR36,009 to SR5,006. The individual Saudi does not experience the drops in oil revenue immediately, but only gradually with a time-lag as the government initially cushioned the lower oil export earnings by drawing on its foreign assets. The difference between GDP and petroleum exports per capita also indicates that the importance of the non-oil component of GDP increased in the total share of GDP. Both issues will be discussed in more detail later on.

Subsidies on basic commodities and housing benefits aimed *inter alia* at ameliorating the growing income differences and included, for instance, price supports for water and electricity. Water for agricultural usage was supplied free of charge and for industrial and private users at a very low fee.<sup>6</sup> The cost to the government of producing and supplying electricity, for example, amounted to four times the price charged to the consumers.<sup>7</sup> As far as fuel subsidies are concerned, prices on the internal market remained stable between 1978 and 1984 but increased by over 60 per cent in April 1984, and the price for

premium gasoline doubled in November 1987 (Askari, 1990, p.82 and p.93) and was increased again in 1999. Hossein Askari has classified the subsidies disbursed by the Saudi government by their overall objective, social or productive, as the following table demonstrates. Most of the electricity, water and food subsidies are classified as 'social' because in general they are consumed directly by the households. Agricultural subsidies are counted as predominantly 'social in objective' as the size of the subsidies amounts to multiples of the world price, nevertheless, a fraction of it can also be considered as having a productive objective.

**Table 2 CLASSIFICATION OF SUBSIDIES BY THEIR OBJECTIVE (1975-1984)**

(in percentage of total subsidies for 1975-1984)

<b>Subsidies</b>	<b>Predominantly Social Objectives with little impact on development of competitive industries</b>	<b>Mixture of Objectives</b>	<b>Predominantly Productive Objectives</b>
<b>Electricity</b>	7.4	0.1	3.2
<b>Water</b>	12.2	---	---
<b>Fuels</b>	---	29.6	---
<b>Agriculture</b>	5.5	---	---
<b>Food Subsidies</b>	6.6	---	---
<b>Saudia (operating)</b>	---	0.7	---
<b>REDF</b>	18.6	---	---
<b>PIF</b>	---	---	12.5
<b>SIDF</b>	---	---	3.7
<b>TOTAL</b>	<b>50.3</b>	<b>30.3</b>	<b>19.4</b>

- REDF: Real Estate Development Fund, PIF: Public Investment Fund, SIDF: Saudi Industrial Development Fund

Source: Askari, 1990, p.116

With time subsidies were also used to encourage a more active participation of the private sector and the development of non-oil sector industries. The emphasis has largely been on investment subsidies for capital or on consumption subsidies rather than on production subsidies for nascent industries. Consumption subsidies tend to encourage waste and inefficiency and also distort the economic situation, while production subsidies could enhance the long-term competitiveness of the non-oil sector industries (Askari, 1990).

From 1952 land distribution of the nationalised tribal lands also played a major part in the process of dispensing oil money to private individuals. Almost every citizen could benefit from the land distribution policies for the construction of a home. The most sought-after

pieces of land, especially those close to urban areas, were frequently 'donated' in a very informal and personal way to the top-echelon bureaucrats or other members of the élite. Often the government sold land at very low prices and later repurchased it at much higher prices. During the boom years, those who had acquired land also received farming and industrial subsidies or interest free loans, thus land distribution constituted the basis for wealth accumulation the consequences of which will be discussed in detail later in this chapter (Chaudhry, 1989/1992 and Nowshirvani, 1987).

## **THE ROLE OF THE STATE IN THE ECONOMY**

Concomitantly to the increasing oil revenues, the role of the state in the planning and development of the economy augmented. The government sector in Saudi Arabia came to account for almost two thirds of GDP, and state spending and distribution of oil revenues became the primary sources of capital formation as well as of resource allocation. As the oil industry has few direct links with other economic sectors, the state also became the principal mediator between the different sectors. This section will provide a brief description on how the bases of revenue and the contribution of the different economic sectors have changed during the oil boom. The intervention of the government in the economy and the decline of its extractive capabilities has important implications for the future path of development in Saudi Arabia. Trends established during the oil boom are difficult to reverse and have created imbalances which are difficult to redress.

### **Changing Bases of Revenue - The Centrality of Oil Revenues**

With the advent of the 'oil era' the government's bases of revenue witnessed a complete transformation. Domestic sources of revenue, taxes or custom duties gradually declined in importance and the extractive capabilities of the state waned. Previously, indirect taxes, custom duties and pilgrimage royalties used to represent the most important component of state income. In 1952, for instance, *zakat* and income tax represented almost half of the overall government income, but declined to less than ten percent in 1971 and to 1.6 per cent in 1978 (Chaudhry, 1989, p.124). From the 1960s tax policies changed and the collection of taxes from individuals lost in significance, while taxes on



corporate businesses increased. After the windfall oil price increase in the 1970s the government began to withdraw all kinds of domestic taxes and increasingly relied on oil as its main source of revenue (Krimly, 1993, p.186).<sup>8</sup>

Table 3 highlights the importance of oil revenues and their relationship to GDP. Especially during years of high oil prices the ratio of oil exports to total exports has been extremely high. Although the ratio has decreased during low oil price years, oil exports still represent almost 90 per cent of total exports. The ratio of oil exports to GDP elucidates the high proportion of oil exports compared to other outputs. The ratio declined to less than 30 per cent in 1986, yet has risen again with the increase of oil prices and higher oil production.

**Table 3 GDP, OIL REVENUE AND GOVERNMENT CONSUMPTION (1970-1995)**

(billions of SR)

YEAR	GDP	Total Exports	Ratio of Petroleum Exports to Total Exports <sup>9</sup>	Ratio of Petroleum Exports to GDP	Government Consumption	Ratio of Government Consumption to GDP
1970	17.40	10.67	101.97	62.53	3.42	19.66
1971	28.26	17.27	96.47	58.89	4.29	15.18
1972	40.55	19.78	114.81	56.00	5.34	13.17
1973	99.32	28.92	100.00	29.19	9.86	9.93
1974	139.60	126.22	100.19	90.59	15.91	11.40
1975	164.53	104.41	99.66	63.24	28.88	17.55
1976	205.06	135.15	100.56	66.28	41.03	20.01
1977	225.40	153.21	100.17	68.09	47.03	20.86
1978	249.54	138.24	91.95	50.94	71.90	28.81
1979	385.81	213.18	92.42	51.07	77.56	20.10
1980	520.59	362.89	92.98	64.81	81.92	15.74
1981	524.72	405.48	93.05	71.91	128.53	24.49
1982	415.23	271.09	92.65	60.49	126.85	30.55
1983	372.02	158.44	93.34	39.75	121.33	32.61
1984	351.40	132.30	91.25	34.36	121.06	34.45
1985	313.94	99.54	n/a	n/a	114.39	36.44
1986	271.09	74.75	89.47	24.67	106.37	39.24
1987	275.45	86.88	88.05	27.78	107.71	39.10
1988	285.15	91.29	82.89	26.54	97.42	34.16
1989	310.82	106.29	84.90	29.03	96.56	31.07
1990	391.99	166.34	90.35	38.34	120.13	30.64
1991	442.04	179.00	91.34	36.99	165.00	37.33
1992	461.40	188.30	92.53	37.76	148.97	32.29
1993	443.84	158.77	91.10	32.59	127.78	28.79
1994	450.03	159.59	89.50	31.74	119.56	26.57
1995	469.12	187.40	n/a	n/a	122.85	26.19

Source: IMF Financial Statistics Yearbook, various years, see Table III, Statistical Appendix for figures for petroleum exports. GDP at current prices.

The ratio of government consumption to GDP is relatively high, indicating the importance of government expenditure in the Saudi economy and the difficulties, or unwillingness, of scaling it back. In 1986, a year of low oil revenues, it reached almost 40 per cent. The ratio only gradually declined in the 1990s but remained high in comparison to, for example, the ratio of 18.89 per cent for the United States and of 20.49 per cent in Britain in 1990 (IMF Financial Statistics Yearbook, 1990).

### **Government Expenditure and Economic Sectors**

The advent of the oil era and the concomitant incorporation into the international economy had a different impact on the various sectors of the Saudi economy. While traditional economic activities like agriculture (only initially) and the *mudarabah* trade, mentioned in Chapter 2, declined, rent related activities such as the service, financial and import sector gained in significance. The developments in the sectoral distribution was predominantly attributable to government spending policies and the lack of links between the oil sector with the rest of the economy. Increases in the private sector's share in GDP continue to be primarily a result of the budgetary allocations of the government, as one observer commented:

A large proportion of the GDP value of agriculture and manufacturing represents no more than a recycling under a different name of oil revenue - this through governmental direct and indirect subsidies. The relatively large proportion of GDP represented by government, community and personal services is, of course, mainly a function of direct government expenditure, which, in turn, is controlled by governmental revenue, predominantly oil-based... (Bowen Jones, 1986, p.11).

Table 4 shows the growth rate of GDP by sector during the different development plan periods. As will be seen below and in the following chapter, while most sectors underwent contraction during the Fourth Plan period, the growth of the petrochemical industry is particularly noteworthy with 55.5 per cent annual compound growth; the agricultural sector also witnessed a significant growth period during the Third and Fourth Development Plan period. Another sector that grew rapidly during the 'oil boom' and the launching of the massive infrastructure projects in the 1970s was the construction industry. It came to constitute a main component of the non-oil economy, represented one of the most effective means of distributing oil wealth and provided,

despite a large amount of expatriate workers, many employment opportunities. During the First Development Plan (1970-1975) the sector's value added grew at a rate of 18.8 per cent per annum, during the Second Development Plan period (1975-1980) it witnessed a growth of 17.7 per cent while during the Third Development Plan period (1980-85) the sector contracted and its total share of non-oil GDP dropped from 32 per cent to 24 per cent and during the Fourth Development Plan period (1985-1990) to 15.5 per cent (EIU Country Profile, 1994-95, p.31). While in 1979 the construction sector represented 77 per cent of all the value added of the producing sectors, it reached only

**Table 4 GROWTH OF GDP BY SECTOR (1965-2000)**  
( Actual Annual Compound Growth per cent per year)

	1965 - 1970	First Plan 1970- 1975	Second Plan 1975- 1980	Third Plan 1980- 1985	Fourth Plan 1985- 1990	Fifth Plan 1990- 1995	Sixth Plan 1995- 2000
<b>Producing Sector</b>							
Agriculture	3.62	3.59	5.40	8.7	0.7	2.4	4.2
Mining	5.56	21.07	17.14	5.7	13.8	3.1	3.1
					- 1.4	4.9	9.0
<b>Manufacturing</b>	<b>11.76</b>	<b>11.39</b>	<b>15.37</b>	<b>14.1</b>	<b>3.9</b>	<b>4.3</b>	<b>4.9</b>
Petro Refining					5.3	7.5	3.9
Petrochemicals					55.5	(5.6)	8.3
Other					- 4.6	4.4	4.9
Public Utilities	11.31	10.93	24.41	24.0	5.7	4.5	5.5
Construction	3.32	18.57	17.78	- 1.4	-6.7	0.0	4.0
<b>Service Sectors</b>					<b>- 2.6</b>	<b>1.4</b>	<b>4.4</b>
Trade	10.09	13.94	22.06	8.8	-1.5	1.3	6.2
Transport	10.58	16.97	21.13	7.1	-1.9	1.6	2.9
Real Estate				2.1	-6.5	2.5	3.3
Financial and Business Serv.	7.94	8.16	12.99	13.1	-4.8	1.8	4.1
Community and Personal Serv.					0.5	0.7	3.4
Government Services	4.39	7.75	5.96	5.8	1.5	2.8	2.7
Other	9.76	7.09	13.91	7.9			
<b>Non-Oil Sector</b>	<b>6.96</b>	<b>11.66</b>	<b>15.13</b>	<b>5.1</b>		<b>2.1</b>	<b>3.9</b>
<b>Crude Oil/ Natural Gas</b>					<b>1.0</b>	<b>9.0</b>	<b>3.8</b>
<b>Oil Sector (including refining)</b>	<b>10.34</b>	<b>14.80</b>	<b>4.78</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>
<b>GDP</b>	<b>8.75</b>	<b>13.41</b>	<b>8.04</b>	<b>-5.8</b>	<b>0.1</b>	<b>4.1</b>	<b>3.8</b>

Source: Ministry of Planning, Development Plans, various issues

- Figures for Sixth Plan are projected.

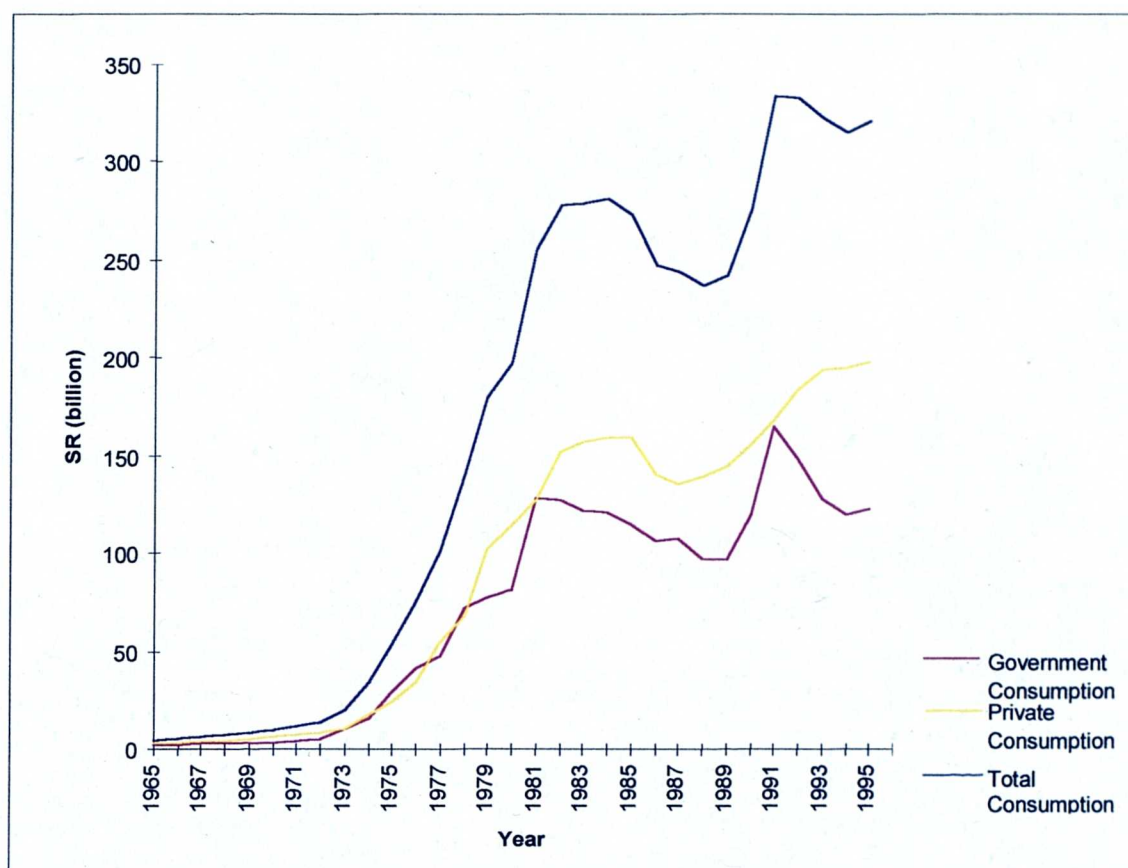
- Figures for Third Plan are rounded to billion.

- Figures for First and Second Plan in 1970 prices, for Third Plan in 1979 prices, for Fourth Plan in 1984 prices, for Fifth Plan and Sixth Plan in 1989 prices.

65 per cent in 1984 (Fourth Development Plan, 1985). In 1994 it represented only 9.6 per cent of GDP at current prices employing 15.4 per cent of the total workforce (EIU Country Profile, 1996-97, p.41). The sector is also one of the few economic activities where the private sector's role is dominant, nevertheless, the government is estimated to have been the client of almost 67 per cent of all construction activity during the first three development plans (EIU Country Profile, 1994-95, p.31). The government protects the indigenous construction industry through various measures, for example by obliging any foreign firm to subcontract at least 30 per cent to local firms. In the last few years, as many infrastructural programmes have been completed, the sector has witnessed significant contraction. Chapter 4 will show that the cuts in expenditure have led to a slowdown in many public sector projects, some of which have been delayed or cancelled altogether.

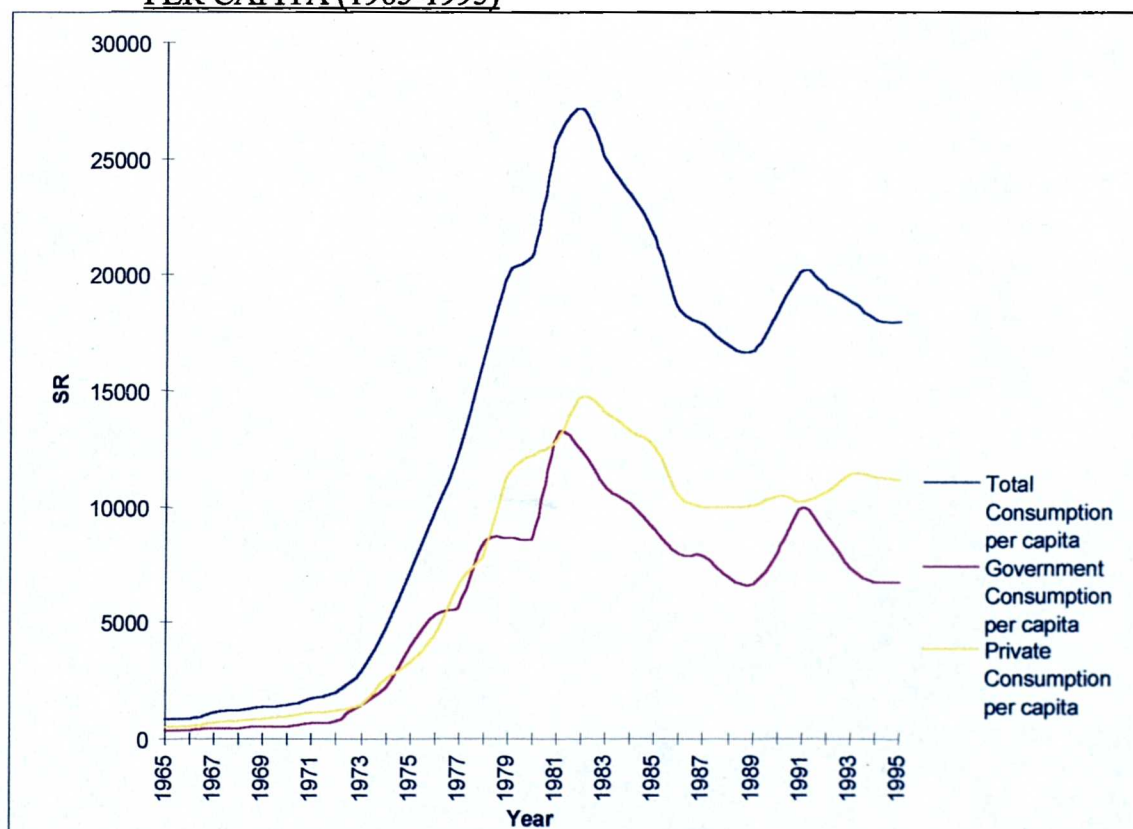
During the early years of the oil boom the absorptive capacity for the influx of wealth within the country was limited, and overall consumption rose only slowly. In the late 1970s the trend reversed and consumption rose to over SR100 billion per annum. There is a strong positive relationship between public spending and private consumption. However, there exists a time lag between government spending and the increase or decrease in the individuals' consumption pattern. Until 1979 government consumption was much higher than private consumption, reaching a high of SR128.53 billion in 1981 and then falling gradually. Throughout the 1980s and 1990s it witnessed substantial fluctuations, decreasing in the second half of the 1980s, when oil revenues were particularly low, to SR96.56 billion in 1989, then rising again in the wake of the Kuwait crisis. Private consumption witnessed a steady growth until 1985 after which it dropped slightly, in the 1990s it decreased at a significantly slower rate than total consumption and government consumption.<sup>10</sup> This, as well as the high ratio of private consumption to GDP, can provide some indication of the demographic growth, the rising expectations of the Saudi population and the difficulties in scaling expenditures back, as the following chapter will elaborate upon. If one considers the consumption per capita figures, total consumption begins to fall already after 1983, while the private consumption rate is still growing, indicating that the government's allocation and expenditure per capita significantly decreased. Graph 3 shows the level of government and private consumption and Graph 4 illustrates the per capita distribution.

**Graph 3 TOTAL, GOVERNMENT AND PRIVATE CONSUMPTION (1965-1995)**



- See Statistical Appendix, Table VI for exact figures.

**Graph 4 TOTAL, GOVERNMENT AND PRIVATE CONSUMPTION PER CAPITA (1965-1995)**



- See Statistical Appendix, Table VI for exact figures.

Especially in the early years of the oil boom internal demand could not be matched by domestic production and the level of imports increased, as the next table illustrates. Until 1982 overall exports outweigh import figures, allowing the government to accumulate large foreign assets. In years of low oil income, particularly from 1983 to 1989, the ratio between imports for goods and services and exports was extremely high, reaching 134 per cent in 1986. The overall level of imports for goods and services decreased from an all-time high in 1982 of SR195.26 billion to almost half that in 1986. Yet the level of imports rose again in the immediate aftermath of the Gulf War. Gwenn Okruhlik has argued that government expenditure and distribution stimulated the consumer demand for foreign made products while leaving the productive sectors of the local economy largely unaffected, the local consumer thereby forges a closer link to the foreign producer than the local productive sector. As a result, economic behaviour is distorted by an anti-productive bias (Okruhlik, 1992, p.32).

Table 5 IMPORTS and EXPORTS (1970-1995)

(billions of SR)

<b>YEAR</b>	<b>TOTAL Imports of Goods and Services</b>	<b>TOTAL Exports of Goods and Services</b>	<b>Imports/ Exports</b>
1970	4.99	10.30	48 %
1971	6.30	19.86	32 %
1972	8.27	30.01	28 %
1973	15.29	85.68	18 %
1974	27.26	114.46	24 %
1975	42.86	120.28	36 %
1976	62.70	140.32	45 %
1977	91.51	140.76	65 %
1978	107.48	147.24	73 %
1979	132.35	258.49	51 %
1980	157.46	368.43	43 %
1981	187.76	354.92	53 %
1982	195.26	219.45	89 %
1983	186.41	167.18	112 %
1984	190.64	145.53	131 %
1985	137.89	113.16	122 %
1986	115.24	85.99	134 %
1987	119.17	99.05	120 %
1988	114.40	103.08	111 %
1989	116.15	118.21	98 %
1990	141.69	181.13	78 %
1991	182.84	197.28	93 %
1992	181.88	207.87	87 %
1993	164.87	179.40	92 %
1994	134.26	180.00	75 %
1995	140.89	197.27	71 %

Source: IMF, International Financial Statistics Yearbook 1997, 1998

Related to the import business is the allocation of exclusive agency rights, which represents another important means for the government to distribute wealth among its population. Through local contracting and agency rules, the government has encouraged the growth of a group of wealthy commission entrepreneurs, who in return for a share in the profits would offer their name to foreign companies to exercise various trades and professions under their name. Some observers estimate that 70 per cent of all business transactions in Saudi Arabia are subject to commissions with an average level of 10 per cent.<sup>11</sup> Junior members of the royal family increasingly monopolise this network, a fact that causes dissatisfaction among the business class (see Chapter 5).

The shift in sectoral distribution and the influx of consumer imports financed by oil revenues also affected the role of the private sector and private investment within the Saudi economy. With a wide range of incentives like interest free loans through the Saudi Industrial Development Fund (SIDF) created in the 1970s, tax exemptions and infrastructure projects, the government has tried to support the private sector in setting up industrial projects. Encouraging the participation of the private sector is part of the government's endeavours to diversify the non-oil economy and to attract the investments of Saudis. However, particularly since the completion of many infrastructural projects and the contraction of the construction industry, the private sector's main areas of activity have been the service sector and only some manufacturing like building materials, plastics or paper products.

In the 1960s and 1970s private investment provided a small, yet important, incentive for the development of non-oil GDP. Defence expenditures and non-infrastructural investment, rather than government consumption, had a positive impact on private investment. After 1982 this situation reversed and the link between private investment and non-oil GDP was severed. Non-infrastructural investment was the only statistically significant link with non-oil GDP and government consumption became much more important in stimulating private investment.<sup>12</sup>

While the first five-year development plans concentrated on infrastructural improvements, subsequent development plans laid more emphasis on economic diversification in the productive sectors and ventured into agricultural and industrial development, especially in hydrocarbon-based industries. The motivations for developing

an alternative economic base of production are manifold. In the long run it is aimed at substituting for the eventual depletion of oil. Industrial and agricultural subsidies also provide an opportunity for the redistribution of oil rent by the government, hence efforts of diversifying the economy remain closely related to the allocative functions of the state (Luciani, 1990). Furthermore, the oil sector of the economy has few direct linkages to other economic sectors and employs only a relatively small percentage of Saudis, it thus cannot provide sufficient job and training opportunities for the rising number of young Saudis seeking employment.<sup>13</sup>

As the main purpose of this chapter is to show the impact of state intervention in the economy on the socio-economic and socio-political structure of the country, little attention will be given to an economic evaluation of the diversification efforts. Nevertheless, it will become clear that the government's diversification endeavours seem to reflect more a concern for allocation and political considerations than economic efficiency. To illustrate this pattern, the following section will focus on government policies regarding agricultural development, the industrial and construction sectors will be mentioned only briefly.

Industrialisation efforts are mainly concentrated in resource based and highly capital intensive industries, like the petrochemical and fertiliser industries or steel and aluminium production which profit from the use of cheap oil or gas. Industrial cities like Yanbu and Jubail were built from scratch for these purposes. In 1976 the Saudi Arabian Basic Industries Corporation (SABIC) was established to develop the country's petrochemical industry. Today it represents the country's largest industrial enterprise outside the oil producing sector, employing over 11,000 people. The large scale of SABIC production and its supply with cheap gas has made it highly competitive on the international market. A similar success has been oil refining under the umbrella of the Public Organisation for Petroleum and Minerals (PETROMIN).<sup>14</sup> The proportion of crude oil to total exports decreased from 87 per cent in 1984 to around 60 percent in 1990 and the export of refined products increased from 10 to 23 per cent over the same period (Fifth Development Plan, p.36). Currently the total refinery capacity amounts to 1.6 million b/d (EIU Country Profile, 1999-2000, p.35). While the expansion of the hydro-carbon based industries has been relatively successful, these industries are unlikely to increase the linkages between the economic sectors, especially not with the private sector. Since the



oil related industries tend to be highly capital intensive and require highly specialised labour, they are also not likely to be able to provide training and employment opportunities for the increasing number of Saudi graduates (Askari, 1990). A second generation of intermediate industries, that would establish linkages between the different economic sectors and provide the regional market with consumer goods, is still largely lacking.

Since the 1980s agriculture has been a key element in the government's effort to diversify the economy. Apart from the diversification aspect, the government's attitude towards agriculture is motivated by internal and external security concerns. As one commentator described it: "... Saudis do not look to their agriculture in conventional Western accounting terms, they talk of the need for self-sufficiency in food, but the real thrust behind the development of the sector has been a mixture of social policy and national pride..." (Business International, 1989, p.56). The objective was to substitute imports and to reach self-sufficiency in essential commodities such as wheat, to create employment and better living standards for the rural population which, in turn, was aimed at preventing population drifts to the urban centres and at mitigating geographical differences. The then Minister of Agriculture, Dr. Abdul Rahman Al-Shaikh, summarised the Saudi agricultural policy in the 1980s as follows: "[w]hat may be regarded as a cost from the commercial point of view may be simultaneously regarded as a cost, an income or return from a social and national point of view" (Business International, 1989, p.57).

To encourage the expansion of agricultural production, the government provided a wide range of incentives and allocation schemes. In 1968 it set up a Public Land Management Department and initiated a large scale land distribution programme of around 3.1 million hectares (ha). By 1995 2.86 million ha had been distributed of which 811,700 ha went to 89,928 individual farmers, 1.79 million ha to agribusiness projects and 261,400 ha to agricultural companies (SAMA, 33<sup>rd</sup> Annual Report, p.160). The majority of the distributed land was in the sparsely populated Central and Northern regions and was mostly distributed to those with connections to the political élite. The land distribution policies led to the creation of a different farming structure: a highly mechanised sector, predominantly operated by expatriates, organised in agribusinesses which are owned by politically and financially influential individuals with special access to government benefits, coexisting with small family-run farms. Within the largest companies there is a

substantial involvement of members of the royal family, Vahid Nowshirvani described this distribution pattern as one that “belies the government’s assertion that its policies are aimed at raising rural incomes...Obviously, royal rather than rural welfare is the prime consideration” (Nowshirvani, 1987, p.9).

During the 1980s the agricultural sector with a high annual growth rate constituted one of the most profitable sectors of the economy, the prodigious government allocations have helped Saudi farmers, despite the extremely hostile environmental conditions and manpower shortage, to ‘turn the desert green’. “At first glance the results seem impressive: in less than a decade Saudi Arabia has turned itself into the breadbasket of the Gulf. Between the mid-1970s and 1985 wheat output grew more than tenfold, to over 2 million tons...”. Yet “the greening of Saudi Arabia turns out to be much less than a miracle. The real achievements have been modest and totally dependent on the continued injection of funds from the oil sector” (Nowshirvani, 1987, p.7). The success has cost the government enormous sums, the generous subsidies, interest free loans and guaranteed prices for wheat have amounted to an estimated SR 75 billion in the 1980s.<sup>15</sup>

Table 6 gives the official, most likely understated, figures for the total subsidies and loans provided by the government for the agricultural sector. Production subsidies abounded and included, for example, 50 per cent of the cost of agricultural machinery, irrigation machinery and pumps, chemical fertilisers and concentrated feed. Air transportation of high productivity cows, improved seeds for wheat, barley and sorghum was supplied free of charge in addition to generous price supports. In 1979 the government initiated a wheat price support programme, where it purchased the wheat grown at prices up to six times the price of international markets. Another important government incentive for farmers was the provision of interest free loans. Between 1977 and 1996, the Saudi Arabian Agricultural Bank (SAAB) gave loans of SR27.9 billion, government subsidies between 1984 and 1996 amounted to SR59.5 billion.

Loans of the SAAB, similarly to the land distribution policy, benefited larger farm corporations especially in the central and northern regions. In 1985 the average loan amounted to more than SR4 million and the share received by farmers in the central and northern region amounted to over 80 per cent. The traditional farming sectors in the south and western parts of the country did receive little of the generous subsidies. A

survey conducted in Jizan revealed that only 5 per cent of the farmers benefited from the SAAB loans (Askari, 1990, p.118).<sup>16</sup>

Table 6 AGRICULTURE: GOVERNMENT SUBSIDIES AND LOANS GRANTED BY SAAB (1977-1996)

YEAR	Total Loans by SAAB (million SR)	Total Subsidies (million SR)	Agricultural Subsidies (million SR)
1977	585.67		
1978	709.07		
1979	1,128.69	3,916.4	748.6
1980	2,530.87		
1981	2,932.90		
1982	4,166.03		
1983	3,495.76		
1984	2,321.80	12,087.3	4,223.3
1985	1,551.23	9,924.2	3,790.0
1986	1,019.19	9,320.9	4,005.8
1987	841.28	10,597.4	4,609.2
1988	754.53	12,880.5	5,799.1
1989	854.30	7,827.1	4,820.3
1990	1,016.64	8,296.9	5,498.6
1991	756.84	8,975.9	6,297.0
1992	775.15	8,757.4	6,192.3
1993	930.56	9,680.2	5,763.4
1994	670.56	9,891.7	5,507.5
1995	412.6	6,525.8	1,841.7
1996	431.7	6,099.1	1,126.2

Source: Ministry of Planning, Statistical Yearbook, various issues, Achievements of Development Plans  
- For the period before 1984 figures vary between the Statistical Yearbooks and the Reports on the Achievements of Development Plans. Except for 1995 and 1996, figures have been taken from Statistical Yearbooks.

- Agricultural subsidies include subsidies paid by SAAB and the Ministry of Agriculture as well as subsidies for water and poultry feed, local wheat and barley.

Saudi agriculture seemed very successful, imports for many food groups halved between 1987 and 1991 and local food production rose to 60 per cent of the overall consumption. The total value of food exports rose from SR13 billion to SR19 billion in the same period. The production of wheat rose from 141,000 tons in 1980 to 4.07 million tons in 1992. In the early 1990s local demand amounted to approximately 1 million t/year while sales and donations of wheat abroad exceeded 1.5 million t/year making Saudi Arabia the sixth largest wheat exporter in the world. While in the 1980s the volume of food imports amounted to 80 per cent of domestic consumption, in 1991 it fell again to about 50 per cent (EIU Country Profile, 1992-93 and 1994-95). Nevertheless, with agricultural inputs amounting to around two billion dollars at the end of the 1980s, the subsidies exceeded the value of food imports they replaced (Nowshirvani, 1987, p.10). Water reserves, at the present rate of depletion,<sup>17</sup> will run out in 15 to 20 years, depending on the sources

of reports. This fact is aggravated by the high costs of desalinated water for other needs. Nowshirvani estimated that in the mid 1980s the cost to grow a ton of wheat for water alone amounted to SR21,000. He argued: “[t]he result is a modern farming sector that appears to be technologically sophisticated but is economically very inefficient. Now that oil revenues have declined and the real costs have become clearer, the government has begun to question some of these policies. But a powerful farm lobby has emerged which limits the government’s options” (Nowshirvani, 1987, p.7). This lobby also includes a few princes with substantial farmland, rendering it difficult for the government to terminate or to reduce allocations, as will be shown in Chapter 4.

The results are even less impressive if one considers the socio-economic rationale of the agricultural diversification programme. The intention of the government to raise the income in rural areas has not fully been accomplished since, as demonstrated above, land distribution, agricultural subsidies and loans favoured larger farms near urban centres. Traditional rural communities especially in the south have benefited only marginally from government subsidies and the traditional farming sector has further been marginalised through the competition of large agribusinesses.<sup>18</sup> Furthermore, employment for Saudis within the sector dropped, in 1975 agriculture employed 40 per cent of the total workforce with 695,000 people but in 1983 decreased to 5.9 per cent with 224,000 people, most of them being expatriates (various development plans). The money required for the maintenance of the direct and indirect subsidies, vital for the survival of most of the agricultural sector but also, as will be seen later, the industrial sector, has increased the importance of oil revenues. In the absence of a viable back-up industry, spare parts, agricultural machinery and seeds have to be imported. Saudi industry and agriculture also depend to a large extent on the employment of foreign labour. Thus while self-sufficiency has been achieved in some areas, the dependence on other commodities has increased.

The costly diversification policies of the 1980s tended to neglect economic efficiency and productivity for the sake of political expediency, politically influential interest groups determine decisions about resource allocation rather than decision-making based on efficiency-oriented, rational calculations. With oil revenue shrinking, there has to be more concern for the production element, efficiency and competitiveness. Michel Chatelus summarised it accordingly: “[e]conomic choices are distorted by the contradiction between rent-controlling political strategies which aim at stability and the

unavoidable emergence of new social values which a successful economic strategy would necessarily imply... As oil income dwindles and the first stage of an infrastructure-dominated investment policy comes to maturity, allocation states deeply need precise policy guidelines” (Chatelus, 1987, p.111). The Fourth and Fifth Development Plans reflect a certain measure of awareness of the short-comings and inefficiencies of the diversification measures and the government seems intent to rectify some of the distortions. The next chapter will discuss these attempts in more detail.

## **TRANSFORMATION OF THE SOCIO-ECONOMIC STRUCTURE**

The distribution of oil wealth significantly altered the pre-oil era social structure of the country. Influential constituencies developed around subsidies and government handouts, different layers of beneficiaries of the government’s rent were created, giving in turn rise to new layers of beneficiaries to an extent that “the whole economy [became] made up of a hierarchy of layers of rentiers with the royal family at the top, acting as the ultimate support of all other rentiers” (Beblawi, 1987). Saudi society was ‘clientelised’ and allegiance to the state became linked to the distribution of wealth, which turned “social groups into mere satellites of the producer-distributor state” (Ayubi, 1992, p.405). The impact of the economic development and the modernisation process on the various segments of the population differed and the state’s intrusion and intervention was uneven, resulting in socio-economic inequalities. In the absence of reliable data, an analysis of income distribution is difficult, nevertheless, certain patterns become evident and indicate a crystallisation of a more class-based stratification. The following section will highlight the transformation of social mobility patterns. Attention will also be given to the impact of the educational system on the socio-political structure and the concomitant changes in attitudes and expectations.

### **Traditional and Modern *Asabiyya* - Oil Revenue and Social Mobility**

With the growing importance of oil revenue and the subsequent economic development and urbanisation of the country, the dominant modes of production in the Arabian peninsula were transformed. As mentioned before, the economic bases of the nomadic tribes (caravan trade, extraction of *khawwa*, pastoralism) almost disappeared, traditional

indigenous industries (such as small scale manufacturing of traditional goods) declined and access to resources changed. Widespread availability to education and employment opportunities in the administrative state apparatus or the military opened channels for the individual to overcome, to some extent, the ascriptive status characteristic of a tribal society.

The Saudi regime's sedentarisation policy discussed in Chapter 2, intended to strengthen the centralised state, transformed all aspects - juridical, ideological and economic - of the nomadic life. Already in 1925 the exclusive utilisation rights to the *diras* (grazing grounds) for the tribes were abolished. This paved the way for a gradual penetration of the state into previously untouched aspects of life, which, in turn, engendered a loss of control functions of the tribes over their resources and over the protection of community interests. Pastoral- nomadic activities were slowly replaced by sedentary farming through the initiation of agricultural projects. The sedentarisation efforts intensified in the 1950s and 1960s, a Royal decree of 1953 permitted access to rangeland to everyone, thereby ending tribal control over grazing rights. The land distribution law of 1968 gave property rights to individuals rather than favouring the collective management of resources (*qalamat*) and water supplies were nationalised. As a consequence, identification with the tribal element weakened and was unlikely to serve as a basis of an effective ideology any longer since "all the land is the dira of the Sa'uds" (Piscatori, 1984, p.17).

As a result of these policies, cities grew at a phenomenal pace particularly throughout the 1960s and 1970s. The urban population increased by 5.2 per cent per annum between 1970 and 1975 and many towns doubled in size. Riyadh, for example, grew from 300,000 inhabitants in 1970 to 1.8 million in 1991. While in 1960 29.7 per cent of the total population were urbanised, the percentage increased to 48.7 per cent in 1970, to 65.9 per cent in 1980 and to 78.5 per cent in 1990 and is expected to amount to 85.7 per cent in the year 2000 (ESCWA Survey, 1998). Satellite towns were constructed around the main urban centres and the authorities had to cope with the social implications this process engendered. By the 1990s, according to figures from the Ministry of Municipal and Rural Affairs, merely 3 per cent of the total population were considered migratory (EIU Country Report, 1994-95, p.11).

Distributive policies were implemented in a way in which they bypassed pre-existing social structures. Functions previously assumed by the tribal or local community leaders, were taken over by the government. Education, welfare and employment came to be provided directly by the state to the individual citizen. With sedentarisation and the marginalisation of the role of tribal leaders, the tribes became directly dependent on the state and easier to control. This deliberate government policy seems to have had several objectives: to prevent the emergence of social forces that could pose a threat, to use the workforce in order to reduce the tide of immigrant workers as well as to increase national integration by diluting tribal solidarity (Gause, 1994, p.23 and Fabietti, 1982, p.185). Al-Naqeeb argued that in the absence of such policies “traditional forces would be transformed into something resembling a decrepit lumpenproletariat in air-conditioned ghettos on the fringes of the ‘metropolitan petroleum cities’” (Al-Naqeeb, 1990, p.91).

Altering the mode of access to resources also paved the way for a process of wealth differentiation within the Bedouin communities as well as between them and the urban population. Education and new employment opportunities were concentrated in the urbanised areas. In the early 1980s, according to the Ministry of Planning, 92 per cent of all licensed factories and establishments, 85 per cent of electricity production and 87 per cent of telephone lines are found in the large urban agglomerations, while 63 per cent of the country’s total crop area is located in the south-west and central region (Fourth Development Plan, 1985, p.370). In 1970 an income distribution relationship between the highest and lowest level among the Bedouin communities of 1 to 16 (of 1 to 4 if sheikh and teachers are excluded) was observed by Islami and Kavoussi. The relationship rose to 1:30 within urban areas in 1976. Islami and Kavoussi maintained that:

the difference between income distribution in urban and rural areas is noteworthy because it shows that urbanization can automatically increase the degree of political volatility in the kingdom. The poverty of a Bedouin living in a homogeneous and egalitarian community was clearly tolerable since all neighbours were equally poor. Now that he has moved to the highly differentiated and unequal city, low income can cause considerable frustration and discontent (Islami and Kavoussi, 1984, pp. 63).

In 1981, according to a study by the Ministry of Labour and Social Affairs, income distribution was as follows: of all households 19 per cent disposed of an annual income of \$2,747 and 42 per cent of less than \$5,494. The majority of the poor was found

among the rural and Bedouin population as well as in the Asir and Al-Hasa province, whereas 44 per cent of the wealthier persons lived in the central province and were predominantly state employees or businessmen (Chaudhry, 1989, p.129).<sup>19</sup> Subsequent development plans have acknowledged the wealth discrepancies and the potential threats to internal stability and sought to redress the rural-urban disparities, for example by settling the scattered rural and nomadic population closer to village clusters with existing public facilities and services (Fourth Development Plan, 1985, p.381). The rural-urban gap, while reduced, is still prominent today. The proportion of population with access to health care is lower in rural areas, 88 per cent compared to 100 per cent in urban areas, access to safe water 74 per cent compared to 100 per cent and sanitation 30 per cent to 100 per cent (UNDP Human Development Report, 1996).

Social mobility through the introduction of modern education has helped the 'uprooted' to join the ranks of the middle class, nevertheless, at a certain point they face mobility closure due to the concentrative dynamics of corporatist arrangements (see Chapter 1). For many Bedouins social mobility within the 'modern' system can only be achieved within the National Guard and, to a lesser extent, within the bureaucracy. The superficial incorporation within the system will only be efficient as long as subsidised sedentarisation and recruitment in the National Guard provide enough incentives and career opportunities. Faisal Aldamer noted that the "most destabilizing consequence of economic growth and social mobilization is the erosion of hitherto steadying traditional social units, such as the extended family, clan, and tribe, which function as small civil societies performing socio-economic tasks" (Aldamer, 1995, p.182).

The development and expansion of the educational system has been closely linked to the socio-economic dynamics of the country.<sup>20</sup> In the pre-oil era only a very limited number of educational facilities was available, there was a severe lack of funds and teachers as well as substantial resistance from the *ulama* to innovations in the educational field. Only members of the élite studied beyond the elementary school level and the illiteracy level of the population was extremely high.<sup>21</sup> Until the early 1950s expenditure on education did not exceed 2 per cent of total budget allocations and Aramco provided for much of the educational opportunities. Only after the oil strikes, mentioned above, and partly out of fear of secular infiltration in Aramco run schools, did the government begin to recognise the need for a state controlled education system. Since then the expansion and



development of the educational system has been attributed a high priority. As King Faisal expressed it, “[w]e continue to drill wells of water and oil, but the most important is the well of knowledge” (Virchow, 1987, p.557).

During the oil boom the educational system witnessed an enormous growth; until 1990 alone the government has spent approximately SR346 billion on the educational system. The impressive statistics do not necessarily reveal the quality of the educational system or its capacity to meet the manpower requirements of a modern state. The following table demonstrates the increase in government spending on education. It is interesting to note that allocations for education decreased significantly (by more than a third) in the years 1984 to 1986 and did not, with the exception of 1993, rise again over the level reached in 1982 despite an overall population increase.

Table 7 GOVERNMENT EXPENDITURE ON EDUCATION (1971-1994)

Year	Expenditure on Education (million SR)	Year	Expenditure on Education (million SR)
1971	1,150	1984	28,654
1972	1,591	1985	23,032
1973	2,233	1986	18,625
1974	3,760	1987	22,429
1975	12,943	1988	22,240
1976	13,977	1989	22,505
1977	15,049	1990	24,584
1978	15,155	1991	29,201
1979	17,396	1992	29,594
1980	21,294	1993	30,342
1981	23,690	1994	27,822
1982	29,741	1995	n/a
1983	26,044	1996	n/a

Source: Ministry of Finance and National Economy, Statistical Yearbook, various issues and Statistical Indicator, 1993.

The expansion of the education system has always been circumscribed by the concern to preserve the religious foundations of the regime. Curricula at all levels of education include many religious courses.<sup>22</sup> The Islamic content of the curricula is also linked to the current political circumstances and the perceived stability of the kingdom. After the Mecca uprising in 1979, for instance, the Islamic content of the curricula was reinforced. Education for female students was not introduced until the 1960s and only after heavy resistance and riots by the *ulama*. As a compromise Faisal placed female education under

the supervision of the *ulama* and education became totally segregated. He also appointed a member of the senior *ulama*, Shaykh Hassan Al-Shaykh, as minister of education.

With education becoming more widespread, the focus of socialisation was no longer limited to the family or tribe. Socialisation through education has assumed an important role in inculcating the population with the value system of the ruling élite. The *ulama* serve as a 'perfect' tool to establish and perpetuate the ideological hegemony of the Al-Saud. Political debate is non-existent and religious discourse narrowed down to the strict Wahhabi interpretation. Nevertheless, the introduction of secular education<sup>23</sup> and the increasing literacy rate of the population is likely to play a significant role in the transformation of the outlook of society. While not necessarily changing value orientations it is likely to expand the individual's horizon and awareness of alternatives. Many authors, especially those related to the modernisation school, argue that exposure to education leads to increased secularisation and individualism and to a value system that is oriented towards material achievements and merit. Other authors maintain that the introduction of secular education in itself does not lead to radical changes in socio-political values. According to Al-Yassini, for instance, there is little correlation between secular education and the regime's orientation (Al-Yassini, 1985, p.106). Similarly, Al-Naqeeb argued that the spread of education and communication does not weaken tribal, sectarian or local attachments or loyalties, rather the contrary (Al-Naqeeb, 1990, p.127). The consequences of exposure to Western culture on the individual's attitude during extensive periods of study at foreign universities are ambivalent. On the one hand, staying abroad can pose a danger for the regime if it leads to the acquisition of a different attitude towards gender discrimination and other social or political issues. On the other hand, it can lead to the rejection of a perceived corrupting Western influence and ultimately to a more pronounced stance towards religious values, which could eventually also clash with the more pragmatic position of the Saudi rulers.<sup>24</sup>

Education has provided an important means for social mobility for all population groups, it has expanded the *al-dawlah* based access to power (see Chapter 1) but the impact and extent of mobility has varied according to the origin of the individual groups. Higher education initially was the domain of the traditional Hijazi urban middle class and, to a lesser extent, that of the urban Najdi population. Hijazis in the 1950s and 1960s thus came to dominate the administration which resulted in competition and tensions with the

rest of the population. The situation reversed with the numbers of graduates from the Najd rising and their often preferential treatment by the Al-Saud (Abir, 1993, p.63). In subsequent years another source of competition emerged between those educated in traditional, religious institutions and those educated in secular or foreign universities. The competition between the latter category is still evident today as many graduates, especially from religious institutions, find it increasingly difficult to find employment as will be detailed in Chapter 4.

### **Expansion of the Bureaucratic State Apparatus**

Concomitant with the expansion of the education system, the bureaucratic state apparatus increased enormously. Until the late 1980s it absorbed most of the graduates from foreign, secular and religious institutions. The rapid development of the Kingdom augmented the need for an educated and skilled workforce. In the absence of substantial industrial expansion, most employment opportunities arose within the expanding governmental apparatus. The expansion of the bureaucratic apparatus was also motivated by political considerations, Nazih Ayubi described its functions as follows:

Public employment serves the purpose of political control of the educated. It also serves as window dressing: a respectable and modern looking tool for distributing part of the oil 'loot' and for 'disbursing' largesse camouflaged in the language of 'meritocracy' and national objectives... the Gulf bureaucracy is, in spite of all its paternalism, a redistributive instrument that provides people of lesser status and income with opportunities for social promotion through state education and bureaucratic careers (Ayubi, 1988, p.22).

Civil servants also constitute the majority of the so-called new middle class. As already discussed in the first chapter, the new middle class distinguishes itself from the rest of society by its mostly secular education. Its social mobility is a result of the accessibility of education to all strata of society and their socio-economic position is no longer merely determined by family ties. While civil servants represent the majority of the new middle class, it is important to note that the middle class or strata in Saudi Arabia also includes members of the private sector, the merchants, landowners, members of the old bourgeoisie as well as religious scholars and teachers (Rugh, 1973, p.7). At the same time the composition of the 'old' middle class has changed. While the old merchant class especially of the Hijaz has lost in significance, the importance of state-created and state-

sponsored groups has grown due to their strong links with the bureaucracy and their access to state contracts. Thereby a new group of businessmen was created composed of contractors, agency holders and importers (Chaudhry, 1989). Additionally the middle class comprises members of the military and paramilitary.<sup>25</sup> The National Guard provides an important avenue of social mobility for the Bedouin community, whose size and functions have been enhanced significantly since the mid 1980s, which will be dealt with in the final chapter.

The following table gives an indication of the amounts spent on salaries and wages in the public sector. Wages and salaries absorb a significant amount of government funds, in 1985 and 1986 the amount decreased when many public sector employees lost their jobs, but resumed growth again and in 1993 it reached a high of SR77 billion.<sup>26</sup> The ratio of public expenditure on salaries and wages to overall government consumption is very high, reaching 60 per cent in 1989 and 1993. Overall public expenditure and the proportion of expenditure on wages in relation to other sectors is dealt with in Chapter 4.

Table 8 PUBLIC EXPENDITURE ON SALARIES AND WAGES (1970-1995)

(in millions of SR)

Year	Salaries and Wages	As percentage of GDP	As percentage of Government Consumption	Year	Salaries and Wages	As percentage of GDP	As percentage of Government Consumption
1970	1,791.0	10%	52%	1983	51,680.7	14%	43%
1971	2,537.2	9%	59%	1984	53,720.1	15%	44%
1972	3,122.8	8%	58%	1985	50,474.9	16%	44%
1973	3,583.4	4%	36%	1986	50,474.9	19%	47%
1974	5,101.1	4%	32%	1987	55,652.2	20%	52%
1975	9,344.2	6%	32%	1988	56,287.9	20%	58%
1976	9,039.3	4%	22%	1989	58,275.9	19%	60%
1977	17,110.9	8%	36%	1990	62,484.5	16%	52%
1978	21,425.6	9%	30%	1991	62,484.5	14%	38%
1979	23,004.3	6%	30%	1992	72,940.3	16%	49%
1980	32,219.9	6%	39%	1993	76,963.7	17%	60%
1981	41,127.6	8%	32%	1994	67,712.7	15%	57%
1982	52,807.0	13%	42%	1995	61,408.7	13%	50%

- Salaries and Wages include allowances

Source: Ministry of Planning, Statistical Yearbook, various issues (Government Budget Appropriations First Chapter), figures for GDP and government consumption from IMF Statistical Yearbook 1998 (GDP at current prices).

While the expansion of the educational facilities and the bureaucratic state apparatus have undoubtedly enhanced social mobility, penetrating to the upper levels of the bureaucracy or the business élite remains the preserve of the well-connected who often dispose over *al-dawlah* based access as well as *al-hukumah* based access to power.

While the *al-dawlah* based access is largely a function of the oil-generated social mobility, the *al-hukumah* based access is often dependent on tribal and family alliances which were mainly forged during the pre-oil era. Gwenn Okruhlik observed that “kinship and region are important determinants of recruitment to offices. There is not an internally coherent bureaucracy; ascriptive characteristics are critical in high level appointments” (Okruhlik, 1992, p.26). As Chapter 6 will show in more detail, employment opportunities for women have risen, yet their social mobility and participation in the workforce remains very limited. Partly in order to prevent women from entering the labour market, the state supported the ‘import’ of a large number of foreign workers.

For the analysis of class formation in Saudi Arabia and the political and social dynamics this produces, it is important to consider the influence of the presence of the large migrant worker community. Whereas economic development in Saudi Arabia led to the expansion of a new middle class, no indigenous Saudi working class developed due to the absence of substantial industry and the significant role of expatriates in the economy in oil exploitation, services, construction work, etc. The pre-oil era workers were mostly absorbed by the burgeoning public sector and joined the new middle class. As Gause explained: “[a]ccess to great wealth has allowed the Gulf countries the luxury of paying other people to do their (literally) dirty work... Economic factors drove the purported ‘cultural’ distaste for some kinds of jobs; economic factors will have to play a major role if such attitudes are to be shifted” (Gause, 1994, p.151).

Between 1979 and 1984 (Third Development Plan) total employment increased by over 1.4 million of which only 292,000 (21 per cent) were Saudi nationals.<sup>27</sup> The annual employment growth rate amounted to 3.7 per cent of Saudis and 11.7 per cent for non-Saudis. The share of Saudis among the total working population declined from 49.4 per cent in 1979 to 40.2 per cent in 1984 (Fourth Development Plan, 1985, p.31). The expatriate labour force (excluding illegal workers) rose from 1.5 million in 1979, to 2.7 million in 1984 (Fourth Development Plan, 1985, p.36) and to 3.9 million in 1989, 4.3 million in 1990 and 4.5 million in 1994. Krimly stated that “for every 100 gainfully employed Saudis, there were more than 93 foreigners employed in personal or household services” (Krimly, 1999, pp.260/261). During the recession employers could, by shifting the nationality composition of the foreign labour force, cut salaries and adjust them to lesser incomes. Especially after the mass exodus of Palestinians and Yemenis in the wake

of the Kuwait crisis, cheaper workers from Asian countries were recruited, as a result the wage gap between Saudi and non-Saudi workers increased during the Fifth Development Plan period. The more the gap grows, the more difficult it becomes to employ Saudis in the private sector, particularly in the lower skilled jobs (Fifth Development Plan, 1990, p.117), as will be discussed further in the following chapter.

For the political evolution of the country the significance of the absence of a working class should not be underestimated. Usually economic development and industrialisation engenders the growth of an urban working class, which, given the right circumstances, tends to become politicised and organised within the framework of political parties or trade unions. This trend did not occur in Saudi Arabia due to several factors. The expatriate working class in Saudi Arabia is largely composed of people from diverse backgrounds with the majority today being Indians, Egyptians and Pakistanis as well as a sizeable Western presence. Furthermore, the Saudi government tries to separate as much as possible the foreign residents in the country by creating 'enclaves', like the American compound in Dahrhan. The limited stay in the country and the dependence on their employers tends to make expatriate workers also less able and willing to organise politically (Niblock, 1985, p.39).

## **OIL RENT AND POLITICAL DEVELOPMENT - 'NO REPRESENTATION WITHOUT TAXATION'**

Institutional development in Saudi Arabia, political or administrative, diverges from the classic pattern of state building since bureaucracies developed in response to the need to allocate rather than to collect revenues. Many observers linked the emergence of a state-created and state-dependent new middle class and the absence of an indigenous working class to the weakness of civil society and the lack of political participation of the Saudi population. The provision of wealth and the state's power to grant or withhold this wealth has given the state enormous power over potential dissenters, *ergo* it is argued, demands for political participation are muted. Dependent on the ruler's benevolence, the population tends to be disinclined to challenge the state and remains largely depoliticised. Giacomo Luciani suggested:

because stability in the rentier state is connected with rent distribution and the latter is difficult to subject to political discourse, power in a rentier state is almost naturally vested in an authoritarian ruler that will act out of his great generosity i.e. arbitrarily, allowing for political graduation of economic reward. The ruled are likely to accept even blatant income inequality as what is given to them is in any case more than what they would deserve or could expect to make elsewhere (Luciani, 1988, p.463).

Less political friction exists also because income differences are not the product of exploitation of labour (excluding the majority of foreign workers) but are due to the exploitation of natural resources (Al-Naqeeb, 1990, p.89). Luciani maintained that the unequal distribution of rent does not provide enough incentive to coalesce and launch an attempt to change the political structure. Rather than seeking to ally with other individuals that feel disadvantaged, the individual resorts to “manoeuvring for personal advantage within the existing set-up” and only in case the state “fails to take full advantage of the possibility of receiving income from the rest of the world... political opposition may develop” (Luciani, 1987, pp.74). However, as David Pool pointed out:

In assuming that allocation to citizens will be sufficient to establish a stable relationship between an autonomous state and its society, the political consequences of the inequity of allocation and consciousness of that inequity are discounted. State structures responsible for unequal allocation are as likely to induce social and political protest as are structures of production, particularly when they are based on unequal relations of power (Pool, 1994, p.200).

In case inequality becomes too blatant and influence more and more dependent on royal connections, resentment is likely to arise, not necessarily only among marginalised elements of society but also among wealthy businessmen who feel, for instance, that royal businessmen ‘cream off’ the most lucrative government contracts. In this context mismanagement, nepotism and corruption of the government become important issues. Due to the significance of the state in the economy and the dependence on government revenue for large sections of the populations, the economic performance of the government and the waste of resources directly affects the interest of the individual citizen. As Chapters 5 and 6 will show, the calls for more accountability have risen in the late 1980s and in the 1990s. The following section outlines the historic evolution of the political institutions in the Kingdom during the oil boom and discusses the impact of oil rent on the distribution of power and the role of civil society.

### **Centralisation of Power - The Modernisation of Authoritarian Rule**

The oil rent factor tends to have a strong centralising effect, both politically and economically, thus is conducive to a perpetuation of the authoritarian nature of the state. Many issues are depoliticised and the spread of alternative ideologies is prevented. Al-Naqeeb contended that oil rent has served to preserve the existing authoritarian order, despite the fact that the new economic realities, the new social mobility and division of labour have led to the disruption of the traditional balance between social and political forces. He argued:

the superficial prosperity leads to the stifling of growth by drugging people and encouraging them to be content with the distribution of the immediate benefits of government expenditure derived from petroleum, and to make additional demands that cannot be justified on any basis other than that petroleum wealth costs no one any effort, since it exists as a bounty that rains down upon everyone (Al-Naqeeb, 1990, p.84).

In order to deal with the transformation of society and the expansion of the state's functions, a certain degree of 'modernisation' or adaptation of the political and administrative system has occurred, through the creation of specialised ministries and the evolution of an extensive administrative apparatus. For instance, the introduction of a Council of Ministers did not alter the decision-making structure or the way interests are represented and mediated, instead, it represented an evolution which responded to the administrative needs, in order to better co-ordinate government policies (Huyette, 1985).

As Chapter 2 mentioned, during Ibn Saud's reign little progressed as far as political development is concerned, the only significant innovations being the creation of the Ministry of Foreign Affairs, the Ministry of Finance in 1932 and the Ministry of Defence in 1944. After the king's death in 1953, the government was reorganised with the introduction of the Council of Ministers and the creation of the Ministries of Interior, Agriculture, Education, etc.<sup>28</sup> The reform had become necessary as a consequence of the rapid modernisation, the increased functions of the state and its involvement in the economy, which required a more complex and competent governmental organisation and distribution of tasks. Although the Council of Ministers does include a certain number of commoner technocrat ministers, it is a rare occurrence that non-royals have the opportunity to express independent or even divergent opinions.<sup>29</sup> In the last decades many members of the royal family have acquired degrees from secularised or foreign universities, *ergo* could take over the most strategic positions in the administrative



apparatus. As Al-Yassini pointed out, whereas Ibn Saud's sons used to hold positions of governors and ministers and administrative responsibility was delegated to non-royals, royal family members today have also penetrated into more junior positions within the civil service and also within the military. Ultimately this assures the continuity of the regime's patrimonial character and reinforces the hold of power within the family (Al-Yassini, 1985, p.97). Portfolios concerned with the internal and external security of the country have never been held outside the inner circle of the Al-Saud family and their dismissal is very rare.

Mordechai Abir described the Saudi regime as an "oligarchy whose pillars are the Saudi royal house, the *ulama* and the *umara*" and estimated the political élite to number approximately 100,000 (Abir, 1993, pp.7).<sup>30</sup> While the executive power is concentrated within a few hands, the extended family network and the *ulama* act as constraints to the autocratic nature of the regime. As discussed in Chapter 1, these informal interpersonal mechanisms represent an important stabilising factor, to a degree where they almost function as political institutions that enhance the rulers' ability to penetrate society and enforce its policies.

The political significance of the *umara* (tribal sheikhs) has declined with the centralisation of the administrative apparatus and the urbanisation process. The government has set up an administrative system for the rural areas that is based on localities which do not coincide with the tribal divisions of the country. Appointed and employed by the Ministry of Interior, the new *umara* comes - although from tribal background - not necessarily from sheikhly families and predominantly from a different tribe than the one they administer.<sup>31</sup> In rural areas the link to the central authority or the urban areas has traditionally been the sheikh, this link today no longer represents the main channel of interest mediation. The individual is increasingly integrated in the state system yet the power of lobbying for his/her interests has decreased with the erosion of the political significance of the *umara*. Access is now predominantly possible via the state bureaucracy (*al-dawlah*), through the National Guard or through business links, while access to the royal family has almost been monopolised by businessmen who often have direct connections to the royal family (*al-hukumah* see Chapter 1).

The *ulama*<sup>32</sup> are often considered as very influential in the political process, however, their function and overall position within the Saudi polity has changed significantly. Depending on the government for salaries and position, they have become agents of the state and through their method of selection and education they have become bureaucratised (Piscatori, 1984). Religious legitimisation remains crucial to the monarchy, therefore the consent of the *ulama* to state policies serves as an invaluable instrument for the ruling élite, as Chapter 6 will show in more detail. In the last decades the religious establishment's participation in elaborating and evaluating government policies has been curtailed to an *ad hoc* endorsement of deliberations of the Royal Consultative Council and the Council of Ministers. At the same time, perhaps to placate them, they have been given a wide range of tasks and control functions over the media, education and moral conduct. The ability of the *ulama* to issue *fatwas* on any issue or government activity can also - albeit less frequently - impede the implementation of governmental objectives, but ultimately their influence depends on the ruler's goodwill. Alexander Bligh showed that the political influence of the *ulama* has steadily decreased, *inter alia* by the establishment of a Ministry of Justice in 1970, which took over the functions of the Grand Mufti (Bligh, 1985). With the creation of the Supreme Judiciary Council and the Council of Assembly of Senior Ulama by King Faisal in 1971, the relationship between the *ulama* and the Al-Saud family was institutionalised. The king appoints and dismisses the members of the senior *ulama*, who are also responsible to him, thereby he can choose the most loyal and accommodating members while the more extreme elements can be delegated to lesser ranks. The *ulama* also relies directly on government funds, the Fourth Development Plan allocated a total of SR18.5 billion for religious and judicial affairs, the allocations in the Fifth Development Plan were reduced to SR13.4 billion. Interestingly, while total allocations decreased, the share for the morality committee increased over the same period from SR922 million for the Fourth Plan to SR955 million for the Fifth Plan (various development plans). The financial dependence together with the institutionalisation and bureaucratisation of the religious establishment reduced the independence of the *ulama* considerably. James Piscatori considered this to be a crucial element in the House of Saud's success in using Islam as a source of legitimacy (Piscatori, 1984, p.59).

With the adoption of secular laws for many state activities, the *ulama*'s jurisdiction is limited to the interpretation and implementation of the criminal law and civil aspects of

the *shari'a*. Ministries dealing with guiding national policies have never been occupied by an *alim* (religious scholar, singular of *ulama*). Similarly the top civil service positions are increasingly held by secular educated Saudis. So far members of the *ulama* have held only the position of Minister of Education, Minister of Higher Education and Minister of Justice. Additionally, the religious establishment was decentralised and authority delegated to various institutions. In 1962 the Ministry of Pilgrimage and Waqf was created and put in charge of the supervision and management of mosques, selection of prayer leaders and the censorship of religious sermons. Ten years later the Administration of Islamic Research, Guidance, Propagation and Ifta was established to supervise religious centres abroad and religious publications. Religious education came under the guidance of the three Islamic universities. The *ulama* could thus assume the role of the ideological state apparatus, enabling them to neutralise any potential opposition by, for instance, labelling them un-Islamic, an issue that will be dealt with in greater detail in the final chapter.

The House of Saud claims to rule by *ijma* (consensus) and *shura* (consultation), thus contends to be aware of discontent from different segments of society, the tribes, the religious establishment, the military, the royal family itself and the new middle class. Tactics that are also characteristic of corporatist strategies, as discussed in the conceptual framework. The institution of a daily *majlis*, in which citizens are supposed to have direct access to the king, and those of every minister or province *amir*, led some observers to describe the Saudi system as a form of democratic representation of the population. Institutions like the Board of Grievances, created in 1955, are supposed to investigate complaints and to adjudicate them with the approval of the king. This institution today is controlled by the *ulama*, thus the scope of issues dealt by it are limited. By elevating the *shari'a* to the absolute law of the country, to which even the king is subjected and judged by, the monarchy has tried to circumvent charges of absolutism and theocracy. In matters not regulated by Islamic law the rulers have considerable scope in implementing policies. Consequently, as James Piscatori maintained, the Al-Saud family is able to rule almost without checks and balances while claiming to adhere to the *shari'a* (Piscatori, 1980, p.126).

With the multiplication and increasing complexity of government responsibilities, the *majlis* system is no longer adequate. This kind of direct patron-client relation has lost its

effectiveness since the process of consultation requires time and a large proportion of the population, especially women, is mostly left out. Often only the privileged or those with personal ties to the *amir* (i.e. those who have *al-hukumah* based access) can benefit from *majlis* sessions. To express views or being able to present grievances is not sufficient and it certainly does not compensate for genuine political debate. While the *majlis* system might have contributed to an amelioration of the rigid bureaucratic system, it is not able to redress its imbalances and deficiencies. As already discussed in Chapter 1, rule by consensus or corporatist arrangements thus represents often a very asymmetrical power relationship. Al-Naqeeb argued that as social mobility is dependent on connections to the élite, corporatist arrangements lead to a reinforcement of a client-patron pattern. Apart from the client-patron relationship there are hardly any direct links between the state and society (Al-Naqeeb, 1990).

The Council of Ministers holds both legislative and executive power, its power is derived from the monarch who presides over the Council of Ministers and to whom all ministers are responsible. The king is the head of the Al-Saud family, Prime Minister, chief executive of the central government, Supreme religious Imam, Commander-in-Chief of the Armed Forces and Chief Justice. Much of the consensus process is limited to the inner family circle which includes only the senior princes. The reforms initiated in 1993, which will be discussed in detail later on, do not significantly change the power equation, indeed, they even seem to underline the concentration of power in the hands of the House of Saud.

### **The 'Pact' between State and Society**

The beneficiaries of government distribution comprise government employees, the military, recipients of pensions or welfare benefits, students, contractors or economic sectors that depend on the government for their livelihood as well as those benefiting from the state's price support for basic commodities. John Waterbury contended that society and state formed an 'alliance for profits' and society has entered "into a pact with the state which has impeded progress toward democracy" (Waterbury, 1994, p.27). Similarly, Ayubi described this pact or trade-off as follows:

Through the creation of a bureaucracy, the rulers of the oil states are paying the citizen - by way of lucrative government employment - in return for a cessation of the old tribal wars, for tacit acceptance of the political supremacy of one tribe or fraction of a tribe (the royal or princely family) over the others. What the central administration does for the modern urban sector, the system of local subsidies achieves for the rural and nomadic areas. This can be likened to a system of indirect administration that recognises the traditional authority networks of the Bedouin and incorporates them in the state structure (Ayubi, 1988, p.29).

As already briefly discussed in Chapter 1, this pact or relationship of mutual dependence, characterised by the emergence of corporatist arrangements, changed throughout the evolution of the rentier state. This process becomes particularly evident when examining the new middle class and its relationship towards its 'creator', the state. The next section will point out some of the changes in the oil boom era, Chapter 5 will then analyse the changes in the period of declining revenues.

According to Heller and Safran, the initial stage is characterised by a close co-operation between the two, when the regime grants the fledgling middle class an opportunity to succeed in business. Sharing the goals with the ruling élite, the middle class in this phase does not become the catalyst to associations needed for the development of a genuine civil society (Heller and Safran, 1985, p.6).<sup>33</sup> There is a tacit understanding that "the bourgeoisie would renounce any overt political role... in exchange for which it would be allowed to make significant profits" (Waterbury, 1994, p.27). Interests of the ruling family and the business élite are intertwined, especially the interests of the strong commercial sector whose concern in maintaining political stability and a liberal economic policy is closely linked to the regime's interest.<sup>34</sup>

In the next phase the role of the new middle class changes and it begins to demand a more accelerated modernisation. Demands for loosening certain moral constraints, particularly those involving leisure or the role of women in society, and the wish of participation in decision making are restrained as long as the state's 'defensive modernisation strategy' proves to be relatively successful in providing material progress. The middle class in this phase still seems to accommodate itself to the established order and prefer to entertain themselves outside the country. Expectations on the state begin to rise<sup>35</sup> and in the third stage those demands begin to encroach on the areas that touch the

traditional basis of the regime, its authoritarian nature and religious legitimacy. As a result, serious strains begin to emerge (Heller and Safran, 1985, p.4). Feeling threatened, the ruling élite shows only a very reluctant and insufficient response, which further alienates the middle class. At the same time, important members of the business élite have increased their informal access to the political élite. Although institutions like the Chamber of Commerce, who are important lobbying channels, do not have any policy determining powers, their influence is increasing at the expense of the middle class as the following chapter will show.

This analysis assumes a not yet existing homogeneity of the middle class, at the moment the middle class lacks cohesion and solidarity in order to be able to press collectively for demands on its own behalf. Interest groups are only slowly developing and conflict over economic issues among the population is still rare. Until now the state remains the main mediator between different social and economic sectors of the population, thus preventing conflict or competition among civil society itself. After having deliberately reduced the traditional tribal institutions, the regime could afford to postpone the development of alternative institutions for the expression of conflicting economic interests. As Kiren Chaudhry commented, “[e]xplicitly designed to depoliticize the population, these distributive policies forestalled the emergence of class conflict and public debate about the ends of development and growth” (Chaudhry, 1992, p.150). Societal forces did not crystallise and coalesce into independent institutions or groupings as opposed to the state controlled *ulama* and *umara* that could counterbalance and provide a system of checks and balances to the absolute ruler. With the diminution of the role of the tribe and family, which provided for a network of security and support throughout the process of modernisation, the importance of new associational institutions becomes crucial for representing the interests of the individual. Chapters 5 and 6 will describe in more detail the political practices and the margins of political expression.

Notwithstanding the expansion in the size and functions of state institutions during the oil era and in the absence of the need to extract taxes, the state never became completely autonomous from societal penetration. The interventionist capabilities of the state are often used by private economic interests, which are ultimately able to penetrate various parts of the state. On the other hand, these dominant interests are shaped by the state and

their evolution into a coherent and fully developed class is dependent on their ability to penetrate it (Krimly, 1993). The financial autonomy of the state does not render the state immune from the pressure of interest groups, who lobby the government on specific issues, as will be seen in the next chapter. This lobbying is particularly successful because government expenditure continues to be linked to a political goal, i.e. the maintenance of stability.

In case of an economic downturn and a partial retreat of the state, groups trying to protect their interests, will begin to compete for the diminished benefits. Consequently, institutions for the aggregation of interests and the resolution of conflicting claims will have to be created at some point, i.e. the problems will have to be solved at the political level.<sup>36</sup> This is likely to lead to the emergence of more class based interests which, combined with the government's favouritism towards certain groups, is likely to undermine or weaken corporatist practices and groups. In the absence of a strong civil society, which could assume a mediating role between state and society, the expression of interests is likely to be direct, there is no reciprocity or political exchange and state-society relations tend to be contradictory, not complementary (Ayubi, 1995, p.399). Contradictory state-society relations tend to rely on coercion, thus if the consensus buying cash diminishes, the coercive aspect may ultimately dominate state-society relations and thereby pave the way for a political crisis. As Chapter 5 will detail, the Saudi population increasingly calls for accountability of the government and some for a more equitable distribution of wealth. Those demands, which gained in vociferity after the Gulf War, call for an institutionalisation of that accountability, i.e. a say in or control of the economic decisions of the country. Austerity measures and economic reforms that lead to some form of sacrifices of the population are likely to increase this wish to participate in policy making. Before these demands will be discussed, the next chapter will show that the funds to buy acquiescence have significantly decreased, while the social dynamics created during the oil boom, may make reforms difficult to implement.

## NOTES

<sup>1</sup> External revenue that does not accrue directly to the government has a quite different impact on the socio-political development. Chaudhry highlighted the difference between Saudi Arabia and Yemen, where worker's remittances make up a large percentage of external revenue. For more detail see Chaudhry, 1997.

<sup>2</sup> For more detail see Krimly, 1993, pp.153. Krimly mentions that 55 per cent of the total state expenditure in 1931 and 1947 were absorbed by the private purse of the king, tribal subsidies and defence and security related expenditures.

<sup>3</sup> For a more thorough discussion and description of the strikes see M.Cheney, 1958. See also Chapter 6 for more details on the second wave of strikes and the political demands of the strikers.

<sup>4</sup> For details of the Ten Point Programme see Abir, 1993. It will also be discussed briefly in Chapter 5.

<sup>5</sup> According to Stauffer, the calculation of a depletion allowance involves measuring the current value attributable to the resource itself. The calculation of the resource value is as follows: Price of barrel \$29.00 + operating costs \$ 0.75 + depreciation \$1.00 \* imputed return \$1.50 + rent (resource value) \$25.75. The non-depletable GDP is the value of GDP adjusted for the contribution of the wasting asset, the magnitude for this correction differs widely across the oil exporting countries. In the case of Saudi Arabia, Stauffer calculated a reduction of 67 per cent for the depletion charge, which means that only a quarter of the standard GDP can be attributed to domestic factors of production (Stauffer, 1987, p.29).

<sup>6</sup> The prices changed in September 1985 and then again in 1995 (see next chapter).

<sup>7</sup> In order to defray the explicit and implicit costs, the government gives the electricity generating companies two kinds of subsidies: a cash operating and profit subsidy to counter operating losses and to give a reasonable profit to stockholders, capital subsidies under the Electric Utility Lending Programme and an implicit fuel subsidy for the generation of electricity. For a more detailed description and approximations of the value of subsidies until the mid 1980s see Askari, 1990, pp.102.

<sup>8</sup> For figures of sources of revenue see Table IV of Statistical Appendix.

<sup>9</sup> In some years the ratio of petroleum exports to total exports is above 100 per cent. Although there are no indications in the IMF yearbook, it is likely that the figures for petroleum exports include subsidised fuel exports to, for instance, the front line states or that the figures were compiled from various governmental sources which often use different accounting procedures.

<sup>10</sup> For comparison, the public consumption rate in the United States in 1990 was \$1,043.2 billion (including investment), less than a third of the private consumption rate (\$3,748.4 billion), in Britain the relationship is similar with 112.93 billion pounds for the public consumption rate and 347.53 billion pounds for the private consumption rate (IMF Statistical Yearbook, 1995).

<sup>11</sup> Aburish, 1994, p.196. Figures are likely to be overstated.

<sup>12</sup> For further detail see Looney, 1996, pp.48-49.

<sup>13</sup> See Chapter 4 for a discussion of unemployment.

<sup>14</sup> In mid 1993 PETROMIN merged with SAMAREC (Saudi Arabian Marketing and Refining Company) established in 1989.

<sup>15</sup> For example wheat exports in 1988 cost the government \$1 billion. Calculated as follows: Difference between guaranteed price of \$530 per ton and world price of \$130 multiplied by 2.2 million tons (Business International, 1989, p.55).

<sup>16</sup> Under the Public Land Distribution Ordinance of 1968, 5 to 10 ha plots went to individuals, up to 400 ha to companies and organisations and 4000 ha plots to special projects (Askari, 1990, p.118).

<sup>17</sup> Agriculture uses almost 90 per cent of the country's 14 billion cubic metres annual water consumption.

<sup>18</sup> Cole, for instance, quoted the example of the King Faisal Settlement project at Haradh. Originally intended for the settlement of Bedouins, it was abandoned and turned over to a foreign company to be run as a highly-capital intensive modern farm. He argued that the agricultural development is mostly implemented by foreign firms in collaboration with the Saudi Arabian Ministry of Agriculture and Water. These firms tend to use capital intensive methods and hardly any interaction with the local population takes place (Cole, 1982, p.110).

<sup>19</sup> Survey data from the social and economic effects of the distribution policies of the state of the Ministry of Social Affairs Study on Changes in the Urban, Rural and Bedouin Communities Four Volumes, Kingdom of Saudi Arabia, Riyadh, 1981 in particular Vol.4, p.94 (Chaudhry, 1989, p.129).

<sup>20</sup> For a historical overview of the modern education system, the expansion of higher education and a detailed list of institutions and their orientation see Abir, 1993, pp.15 and Virchow, 1987.



<sup>21</sup> In 1966 it was 82.2 per cent (females 95.2 per cent and 29.9 per cent among males). In 1927 there were only 27 schools with 700 students in Saudi Arabia (Virchow, 1987, p.568).

<sup>22</sup> See Mohammed Saad Al-Salem, 1981.

<sup>23</sup> The first 'secular' university was Riyadh University, later renamed as King Saud University. However, in the case of Saudi Arabia it is not possible to speak of a genuine secular education since large amounts of the curricula in schools and 'secular' universities are dedicated to religious studies. Other non-religious universities are: King Abdul Aziz University (Jeddah), King Fahd University for Petroleum and Minerals, King Faisal University (Ihsa). The religious universities are: Islamic University at Medina, University of Umm Al-Qura (Makkah), Imam Mohammad Bin Saud Islamic University.

<sup>24</sup> There have been several attempts to study the attitudes of Saudi students in the United States. For instance, Mohammed Ahmed Rasheed, 1972 or Roland May Kershaw, 1973.

<sup>25</sup> Table XII of the Statistical Appendix gives an indication of the total people employed in the military and in the National Guard, however, not all of the personnel are Saudi citizens.

<sup>26</sup> Table XIII of Statistical Appendix shows the number of workers employed in the government sector.

<sup>27</sup> For total population figures see Chapter 4.

<sup>28</sup> For a detailed description of the evolution of the Council of Ministers see monograph on political adaptation in Saudi Arabia by Huyette, 1985.

<sup>29</sup> The dismissal of Ghazi Al-Gosaibi as Minister of Industry in the 1980s after the publication of 'critical' poems and the dismissal of Yamani as Minister of Petroleum in 1986 provide some examples of the precarious position of commoner ministers within the system.

<sup>30</sup> Belonging to the political élite is understood here as being part of a group that has influence in the policy-making process. Wealth, professional expertise or holding an important post in the bureaucracy or military is not necessarily a criteria for belonging to the political élite. Often familial or tribal relations with the ruling family are equally if not more important.

<sup>31</sup> See also Chapters 2 and 5.

<sup>32</sup> The institutions of the *ulama* are: at the top is the Council of the Assembly of Senior Ulama (25 members) other important institutions are the Higher Council of Qadis, the Institute for Scientific study, the Issue of Religio-Legal Opinions and the Supervision of Religious Affairs, the Committee for the Propagation of Virtue and the Prevention of Vice (*mutawwa*).

<sup>33</sup> The stages of the relationship between state and middle class described below, carries many similarities with Gramsci's description of 'moments' of a crisis (see Chapter 1).

<sup>34</sup> For more detail see also Niblock, 1985, pp.41.

<sup>35</sup> Just one example of the rising expectations are the results of a study of Saudi officials conducted in 1983, according to which 79 per cent of the 614 respondents were dissatisfied or neutral regarding their pay (Ayubi, 1988, p. 29 quoted from Chakerian and Abcarian, 1983, p.321).

<sup>36</sup> Claus Offe made similar observations, see Chapter 1.

## **Chapter Four**

### **THE FISCAL CRISIS**

As mentioned previously, oil revenues fluctuate dramatically, while in 1970 Saudi Arabia's oil income amounted to \$2.9 billion, it jumped to \$33.7 billion in 1974 and to \$89.97 billion in the wake of the Iranian revolution. After 1981 with oil export earnings of \$100.6 billion, oil revenues began to fall, reaching a low of \$17.8 billion in 1986 and precipitating a series of budgetary deficits and a 'fiscal crisis' for the Saudi Government.<sup>1</sup> Relying heavily on oil, these enormous fluctuations and drops in oil revenue have had a severe impact upon Saudi Arabia's revenues, government expenditure and overall GDP. Every drop of \$1 per barrel of oil is estimated to reduce Saudi Arabia's revenues by approximately \$2.5 billion per year (The Middle East, May 1998, p.17). With government expenditure having an important multiplier effect on the whole economy, any decrease in government spending has a knock-on effect on private consumption levels, business in general and fixed investment. Oil prices remained low almost throughout the remainder of the 1980s and much of the 1990s reaching another low in 1998. The decline in prices could also not be compensated by an increase in oil production after the fall out of Iraqi oil from the market in 1990 or by a substantial growth in the non-oil sector. Prices began to recover again in 1999 after a cut back in production, yet most analysts agree that they are likely to remain relatively low in the coming years.

The fiscal problems of the Saudi state are the result of the cumulative effects of a decline in oil prices, the costs of the Kuwait crisis as well as general welfare spending, intensified by demographic pressures and high defence expenditures. It is impossible to discuss all the determinants of the budgetary problems of the state here. Nevertheless, in order to contribute to a better understanding of the options and limitations of the government's economic reform measures and the future economic perspectives of the country, it is important to highlight some of the factors that led or added to the fiscal difficulties. The first part of this chapter will show how the fiscal crisis of the Saudi state is perceived by the government and will attempt to distinguish whether it is possible to speak of a conjunctural or a structural crisis, as ultimately this will influence the way the government approaches its economic policies.

The subsequent part of the chapter is dedicated to an analysis of the measures taken by the Saudi government to address the budgetary deficits. The third part of the chapter will look at the socio-political obstacles facing the government in moving 'beyond rentierism' and will briefly discuss some structural constraints that jeopardise economic reform measures. The recession and the government's economic policies affected the various sectors of the economy differently. While in some sectors economic reforms proved impossible to introduce, other sectors, like for example the financial sector, witnessed some positive initiatives towards reform. The variations between the different sectors throw light upon the need for consensus between the government and particularly the business élite for a successful implementation of reform policies. It will be shown that during recessionary periods the country's budgetary priorities, the dominant role of the state in the political and economic sphere and its financial autonomy did not, as one might expect, prove to be an asset, but a liability in the implementation of austerity measures. The emergence of new classes or social forces during the boom years, discussed in the previous chapters, engendered political loyalties that limit the actions of the government in reducing its allocative functions. The regime's policies during the economic downturn also had a differential impact on the various sections of the population and contributed to an increasing wealth gap. The third section will therefore also deal with the socio-economic implications of the post-boom years, the crystallisation of new interest groups, the potential implications of an increasing wealth gap and of a growing number of Saudi job seekers.

The changes during the recession and the impact of globalisation also began to transform the role of the state vis-à-vis the various sectors of society. Having used up most of its foreign assets, the state that previously cushioned the effects of the vicissitudes of the international market gradually loses this ability. As a result, the domestic economy and population become increasingly integrated and exposed to the global economy and affected by its up and downward trends. The final section of this chapter will analyse this transformation of the role of the state and the wider implications of this change.

## **CONJUNCTURAL OR STRUCTURAL CRISIS? - PERCEPTIONS OF ECONOMIC CRISIS AND THEIR IMPACT ON FISCAL POLICIES**

The previous chapter demonstrated that the government's bases of revenue were completely transformed during the oil era. While the domestic, non-oil sources of revenue decreased, oil became the main source of revenue. The heavy reliance on oil renders Saudi Arabia extremely vulnerable to the vicissitudes of the oil market, as a consequence budgets witness substantial fluctuations and since the sharp decline in oil prices in 1985, budget deficits occurred on a yearly basis. At the same time an increasing population, the military and other welfare obligations represent a continuous drain on the country's treasury and make expenditure cuts difficult to initiate. Despite increased efforts of the Saudi government to encourage the private sector to take on more responsibilities and to enlarge the non-oil based economy, the generation of non-oil income has, so far, not been able to counter the drop in oil revenues. To finance the deficits the government drew on its financial assets and increasingly began to borrow from the domestic market.

With oil revenues remaining relatively low and little prospect for substantially higher oil prices in the short- or medium term, the fiscal crisis of the Saudi state that initially appeared to be temporary and easily dealt with has become a recurrent phenomenon for almost two decades. Is it therefore still possible to speak of a conjunctural crisis that can be overcome by higher oil prices or production? Or are the causes of the fiscal crisis more deeply rooted in the fiscal structures of the state, its institutional make-up and a 'necessary' corollary of the welfarist and allocative state?<sup>2</sup> As already mentioned in the theoretical framework, it is difficult to determine the difference between an ongoing conjunctural crisis and a structural (in Gramsci's terminology 'organic') crisis. Crises, their extent and nature, are to a certain degree perceptual phenomena (Waterbury, 1998) and no objective criteria exist to demarcate a borderline between a temporary and a structural crisis.

The government's economic policies and the official discourse, especially in the 1980s, seems to reflect the perception of the recession as a passing phenomenon, easily remediable by drawing on its financial assets and cutting expenditure. This perception has also translated into the way the government deals with the economic downturn. When

introducing expenditure cuts the king and other senior political figures underlined the temporary nature of the measures and reiterated that they would be dropped “as soon as matters are restored to their natural course” and that they would not affect the lives of the people (EIU Country Report, 1<sup>st</sup> quarter 1995, p.4).<sup>3</sup> In September 1996 King Fahd, asked about the economic situation in Saudi Arabia, described it as follows:

there is no state on earth today which has no economic problems or difficulties and despite that, we have insisted on three essential matters which can be considered the foundations of our economic policy. The first one is that the citizen will not be affected in any form by the economic difficulties and that we shall safeguard his gains for him. The second one is the state's carrying out its commitments towards those dealing with it such as companies, contractors and those who implement projects. The third one is the continuation of the development process and earmarking financial means in accordance with the development plans. Thus it can be said that, praise be to God, the Saudi economy is strong and has solid foundations.<sup>4</sup>

The use of foreign assets, short-term higher revenues or expenditure cuts enables the government to postpone measures that require a change in the institutional structures of the state. Yet the problems continue and accumulate, as an IMF Staff paper of 1995 stated: “partial or temporary cuts in subsidies are not enough. What is required is a wholesale reorganisation of public expenditure priorities, sweeping privatisation and an investment climate conducive to attracting private capital inflows sufficient to fund the chronic current account deficit” (EIU Country Report, 1<sup>st</sup> quarter 1995, p.4).

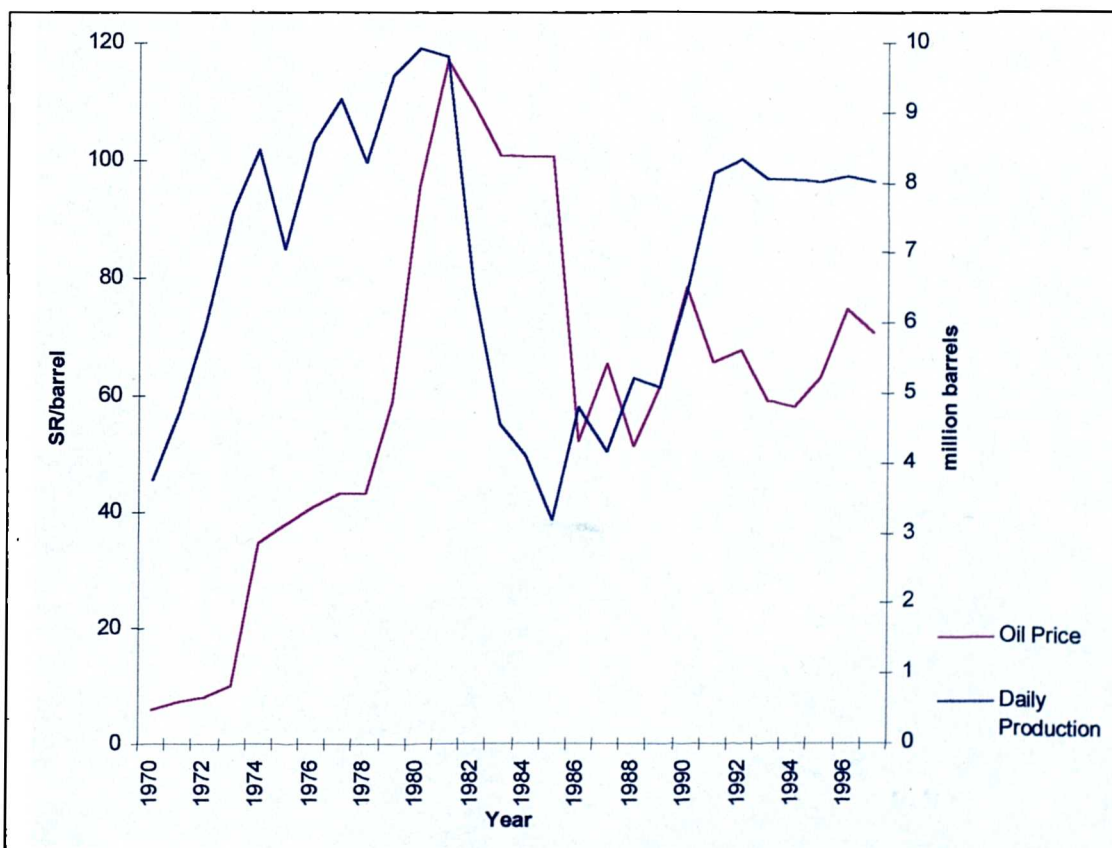
As Habermas pointed out (see Chapter 1), it is important how the population and the opposition movements perceive the crisis and its causes. This perception will be discussed below and in the following chapters. Whether they perceive the crisis and its consequences as an élite failure or predominantly as a result of external factors will ultimately determine the nature of the crisis, i.e. whether the fiscal crisis has the potential to turn into a political crisis for the Al-Saud or not. In this respect it is particularly elucidating to look at the reaction of the population to government policies in the 1980s and in the 1990s.

### Adjusting to Lower Incomes

The reasons for the decline in revenues are manifold, the most significant being the dramatic drop in oil prices since the mid 1980s. Oil prices declined for several reasons: an increasing competition from non-OPEC oil exporters, improved energy conservation measures, the exploitation of new oil and natural gas rich regions, the development of alternative energy sources, international economic downturns and a subsequent drop in demand, etc. Another important but mostly neglected factor contributing to the lower revenues, is the gradual 'transfer of rent', i.e. the diminishing proportion of oil revenues accruing to the producer states. The following section will outline only the principal developments affecting the oil revenues accruing to the Saudi government as it is beyond the scope and not the purpose of this study to analyse the reasons for oil price fluctuations.

The following graph traces the development of oil prices and average daily production levels over the last 25 years. Saudi oil revenues rose continuously until 1974 but already after the major price increases in 1973 from \$2.7 per barrel to \$11.2 in 1974 real oil

Graph 5 DEVELOPMENT OF OIL PRICES (1970-1998)



- For exact figures see Table II of Statistical Appendix.

prices began to fall by over 20 per cent. If expressed in real terms and taking 1974 as a basis, prices changed from \$11.2 per barrel in 1974 to \$19.2 in 1981 before falling to \$6.4 in 1989 and \$5.8 in 1992, i.e. to almost half of those of 1974 (Kanovsky, 1980, p.138 and Sarkis, 1993).

One interesting evolution during the last few years has been the gradual 'transfer of rent' from oil producing countries to oil consumer countries. Whereas the real price for crude oil has declined, the price of oil in industrialised countries has risen mainly due to the imposition of tax.<sup>5</sup> The following table shows the share of the oil producing countries and how it declined over the years in relation to the share of the rent accruing to the industrialised countries through taxation and the increased profit margin of the oil companies. The price for oil products, for instance for the consumers in Western Europe, has risen from \$60 per barrel in 1984 to \$92.2 in 1991, while the amount received by the oil producing countries, including the production costs, fell from \$28.8 to \$19.36 per barrel, i.e. from 48 per cent to 21 per cent of the end price. In the same period taxes accruing to the consumer countries rose from \$21 to \$51.6 per barrel, i.e. from 35 per cent to 56 per cent of the price paid by the consumer. The share of profits of the petroleum companies has also increased from 17 per cent in 1984 to 23 per cent of the end price in 1991. In Japan the price evolution followed a similar pattern to the one in Europe. The United States is the only industrialised country where the price for refined

Table 9 EVOLUTION OF OIL PRICES IN INDUSTRIAL COUNTRIES (1984-1991)

	Western Europe		Japan		United States	
	1984	1991	1984	1991	1984	1991
<b>COSTS</b> for refined product per barrel	\$ 60	\$ 92.2	\$ 65.1	\$ 93.8	\$ 46.2	\$ 42.8
<b>OPEC SHARE</b> (production costs incl.)	48 %	21 %	45 %	22 %	63 %	43 %
<b>TAXES</b> (in industrialised countries)	35 %	56 %	25 %	41 %	24 %	27 %
<b>OIL COMPANIES</b> (includes costs and profits)	17 %	23 %	30 %	37 %	13 %	30 %

Source: Sarkis, 1993, p.6.

oil has fallen from \$46.2 per barrel in 1984 to \$42.8 in 1991, with local taxes increasing by only 3 per cent to 27 per cent. The share of the OPEC countries of the total profit has

fallen considerably from 63 per cent to 43 per cent. For the prices of petrol the evolution is even more significant. The amount paid by the consumer in Western Europe has risen from \$93.3 in 1984 to \$142.4 dollars per barrel in 1991, whereas the fraction received by the OPEC countries fell from 42 per cent to 14 per cent.

The level of oil production has varied substantially. In the wake of the Iranian revolution, Saudi Arabia increased its production from 8.3 million barrels per day (m b/d) to 9.5 m b/d in 1979/80 and to 10 m b/d in 1980. In the early 1980s Saudi Arabia acted as a swing producer within OPEC, absorbing drops in demand by cutting its own production, in 1985, for example, its total production level fell to 3.17 m b/d (MEED Profile, 1990, p.67). After the 1985/86 oil price crisis Saudi Arabia abandoned this role and the policy of official posted pricing in accordance with OPEC agreements and instead tried to recover its market share. Later in 1987, after prices had plunged again, OPEC agreed on production sharing. The reduction of crude oil production of the Soviet Union after 1988 and the disappearance of Iraqi and Kuwaiti oil in 1990/91 led to an increase in the production share of Saudi Arabia. Production increased from 5.1 m b/d in 1989 to an average of 8.3 m b/d in 1992. In 1990 the Kingdom expanded its sustainable production capacity to 10 m b/d and also began to develop its oil fields in the Empty Quarter, particularly the Shaybah oilfield.<sup>6</sup> Yet despite these developments and production increases the overall revenues did not increase substantially. From January 1998 the allocation for Saudi production was increased to 8.76 m b/d, but after the sharp decline in prices in 1998 the government decided to cut its production which, however, did not yield the anticipated price rise. In March 1999 the OPEC members reached an agreement to cut back their production and to cut Saudi Arabia's production to 7.44 m b/d which succeeded in halting the downward spiral (EIU Country Profile, 1999-2000, p.33). Over the long-run Saudi output will also be affected by the eventual full-scale re-entering of Iraqi oil exports to the international market, which will have a profound impact on the quotas of all oil-exporting countries.<sup>7</sup> It should be noted that changes in oil prices on the international market and production explain only approximately 55 per cent of the government's oil revenues, the rest are subject to agreements which fix the price for the long-term.<sup>8</sup>

As discussed in Chapter 3, the Saudi Government has undertaken several initiatives to diversify its sources of revenue. These efforts have accelerated since the inception of the

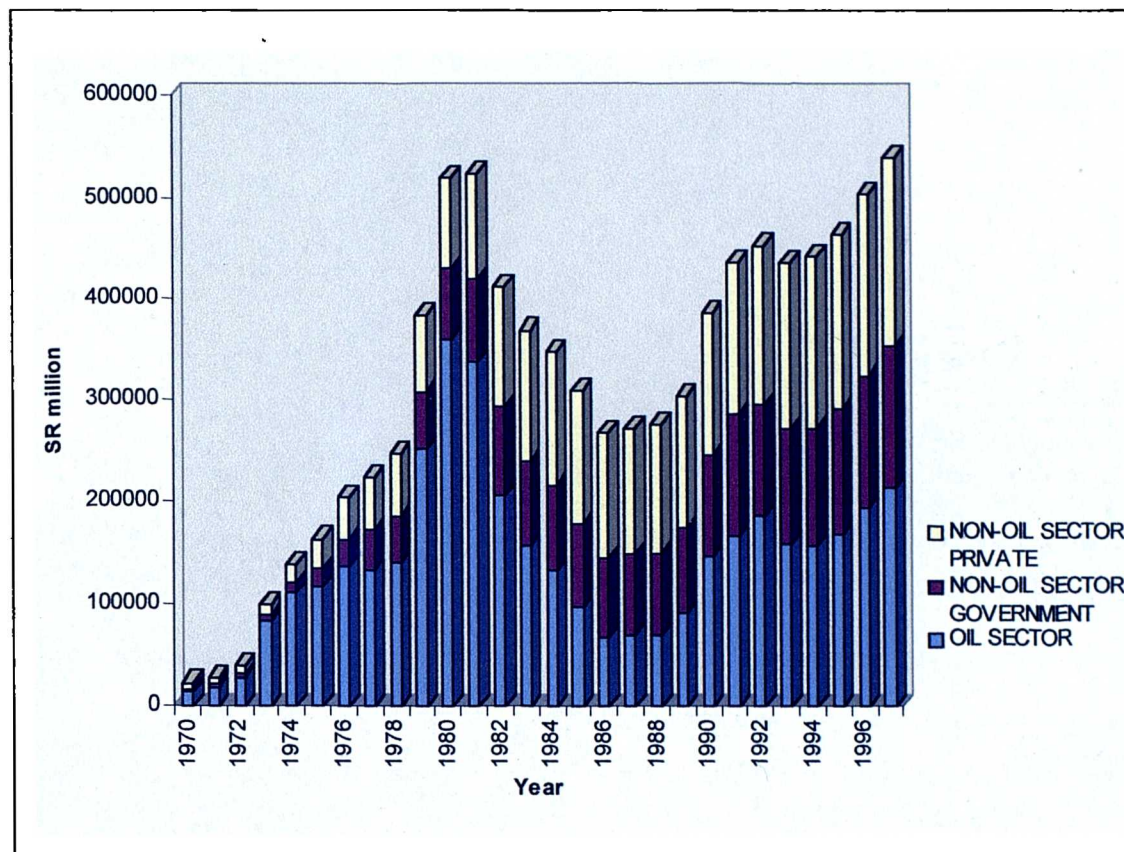


Fifth (1990-1995) and Sixth (1995-2000) Development Plans, whose stated intentions are to alleviate the financial burden of the state by transferring some responsibilities to the private sector, in particular to the commercial banks for the financing of projects, to encourage shareholding companies and to privatise some companies. Initially the government's diversification efforts focused on the hydro-carbon based industries as well as agriculture. The government is intent on expanding the petrochemical industry further, SABIC has expanded its production from 11.9 million tonnes per year (m t/y) to 23 m t/y in 1996 and is anticipated to produce 28 m t/y by 2000. SABIC's profit margins depend very much on the volatile world market for petrochemicals. In 1991 the earnings of SABIC fell by 24 per cent compared to the previous year and in 1992 earnings dropped again by 14 per cent to \$523 million despite an increase in output by 20 per cent. The decline in world market prices for petrochemical products in 1996 affected again its profit margins, in 1998 another drop in the world market price led to a decline of 56 per cent in profits to SR2.02 billion from SR4.6 billion in 1997 (EIU Country Profile, 1999-2000, p.35). Saudi Arabia has also attempted to develop its gas resources, important for its desalination and electrical power plants and petrochemical feedstocks.<sup>9</sup> Such an expansion involves substantial capital costs and the government will need to solicit, due to its shortage of funds, the participation of the domestic private sector. The involvement of the private sector in this key sector of the economy will engender an exposure to financial accountability and a reduction of wasteful government expenditure. Additionally, as Fareed Mohamedi pointed out, the payback period for gas developments is longer than in the oil sector hence the scrutiny is likely to continue for a longer period of time. The opening up of the gas sector will be particularly attractive for powerful business families, a key constituency of the ruling family. Many of them already own some oil and gas companies in joint-ventures with members of the royal family and could thereby turn their political connections into commercial success (Mohamed, 1997, p.3).

The graph below shows the changes in the contribution of the non-oil sector to GDP in constant and current prices. The non-oil sector's contribution rose until 1986, when there was a slight decrease of an average of 0.8 per cent per annum until 1990. In 1990 non-oil economic activities grew again by 6.4 per cent in real terms, a growth mainly attributable to the business generated by the military build-up in the wake of the Gulf War (EIU Country Profile, 1994/95, p.14). The private non-oil sectors' contribution to GDP rose from 17 per cent in 1980 to 38 per cent in 1994 but fell again slightly to 34

per cent in 1997, indicating that the dependence of private sector growth on government expenditure has lessened. The private sector grew by 6 per cent in 1992 and by 5 per cent in 1993 while the state sector's share decreased by 3.8 per cent to 3 per cent.<sup>10</sup>

Graph 6 GDP - OIL AND NON-OIL SECTOR (1970-1997)



- For exact figures see Statistical Appendix, Table V.

The Sixth Development Plan is the first plan that explicitly expresses the government's intention to privatise state assets. "The possibility of privatizing selected government-owned commercial activities at the appropriate time, such as telecommunications and Saudia, will be considered – provided that such privatization will be of real benefit to the national economy" (Sixth Development Plan, 1995, p.159). It is important to note that the plan talks only about studying the feasibility of privatisation, most of the government's privatisation efforts remain only in the planning stage. It seems that initially the government's privatisation efforts were more a long term programme aimed at "upgrading the economic efficiency" (Sixth Development Plan, 1995, p.160) rather than at raising the government's revenue in the short term. The primary target for the government's privatisation efforts is the electricity sector but reforms are moving slowly as the sector is not yet operating at a profit. The government also intends to sell part of

the total of 80 per cent shares in the Saudi Telecommunications Company (STC) from the first half of the year 2000 and has completed the corporatisation of the Ministry of Post, Telephone and Telegraph. Many state industries would, before being successful candidates for privatisation, need restructuring and substantial investment. The country's airline Saudia, for instance, is thought to be operating at a loss and there have been no further indications that it will be privatised. Similarly, there have been no more indications regarding the sale of further shares of SABIC (EIU Country Profile, 1999-2000, p.25).

While government revenues have been declining since the early 1980s, expenditures adjusted only gradually to the lower revenues and continue to exceed revenues. The previous chapter has demonstrated how during the oil boom welfare spending on education, employment, etc. came to represent a significant portion of government expenditure. Approximately three quarters of the budget are allocated to public salary costs, maintenance and subsidies. The following section will concentrate on defence expenditure and the budgetary pressures arising from demographic growth. The socio-political impact of these issues will be discussed at a later stage.

High defence spending and the Kuwait crisis contributed significantly to the pressures on the Saudi budget. In many years defence expenditures amounted to more than a third of the official budget. For instance, in 1984 it amounted to 36.9 per cent and in 1988 to 36 per cent of the total government expenditure, in 1987 defence expenditures (\$17.5 billion/ SR65.5 billion) almost equalled petroleum export earnings (\$20.4bn/ SR76.50bn). In 1982 defence spending reached a high of \$27.3 billion falling to \$17.7 billion in 1985, to \$16.5 billion in 1993 and again to \$13.9 billion in 1994 and \$13.2 billion in 1995. As a percentage of GDP, military expenditure represented 22.7 per cent in 1987 and 15.4 per cent in 1989. In 1990 and 1991, due to the costs of the Kuwait crisis, it came to represent 23.3 per cent and 32.5 per cent, then in subsequent years fell below the 13 per cent mark and in 1994/95 to around 12 per cent of GDP.<sup>11</sup>

In 1990, according to the Stockholm International Peace Research Institute (SIPRI), Saudi Arabia became the single biggest customer for big conventional weapons with imports of \$2.55 billion (calculated at constant 1985 prices). In the period between 1986 and 1990 its total purchases, which amounted to \$10.8 billion (at 1985 prices),

represented more than a tenth of arms purchased by developing countries (SIPRI Yearbook, 1995). It is difficult to estimate the exact amounts spent on weapons, sources vary significantly and many amounts are not included in the official defence budget. For the 1996, 1997 and 1998 budgets, allocations for defence were not announced.<sup>12</sup> The total costs of the Kuwait crisis for the Saudi government are estimated to have amounted to between \$55 to \$60 billion, not including subsequent weapons procurements like M1 tanks, Patriot missiles, F-15 fighters, TOW, etc. which amounted to \$30 billion from the United States alone (EIU Country Profile, 1994-95, p.10).<sup>13</sup> Even if procurement costs are decreasing, the maintenance costs for the Saudi military will remain very high. According to Anthony Cordesman, the Saudi government will have to spend around \$13 billion per annum (calculated in 1992 dollars) solely to maintain its present military, not counting expenses for its expansion and improvement (Cordesman, 1993, p.567).

As will be seen in Chapter 6, the political ramifications of the enormous financial drain of the sums spent on developing such an extensive military infrastructure and in purchasing the most sophisticated hardware are considerable, especially since its maintenance still requires the presence of a large non-Muslim workforce on Saudi soil. Often effectiveness and compatibility of weapon systems in the country seem to be of secondary concern, which renders the utility of many purchases questionable. Additionally, the absorptive capacity of the Saudi defence forces is limited due to chronic manpower shortages. Saudi procurement policies frequently appear to reflect more a concern for providing the country's Western allies with orders that keep the defence industries of these countries alive.

Another factor intensifying the demand on budgetary allocations is the high population growth, with an annual growth rate of over three per cent. According to the official 1992 census, the total population of Saudi Arabia is 16.9 million of which 4.6 million (27 per cent) are non-nationals.<sup>14</sup> In 1995, according to the World Bank and the United Nations, 42 per cent of the population were under the age of 15 and the working-age population has been growing by 3.6 per cent annually (EIU Country Profile, 1999-2000, p.14). This means an ever increasing burden on infrastructure, education, healthcare, housing and an increase in the demand for jobs. One example of the consequences of the population growth on budgetary spending is the annual growth of electricity consumption of almost 10 per cent. Today power systems run close to their design capacity and, for example,

Jeddah suffers from regular power cuts during peak demand periods. For instance, it is estimated by Saudi officials that the Kingdom will need \$116.8 billion over the next 23 years to build new electricity plants (FT, 26 March, 1998).<sup>15</sup> Closely linked to the issue of power generation is the provision of subsidised desalinated water: both representing a never ending drain on public spending.

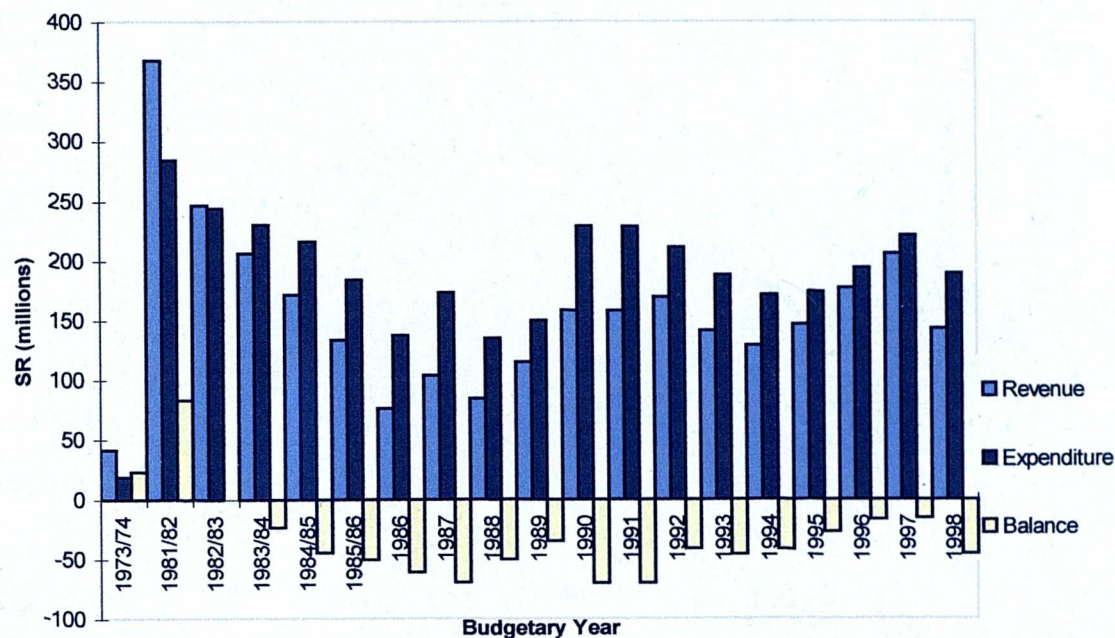
### **Budgetary Dilemmas - Financing the Deficits**

Low oil revenues and the demographic growth were initially not matched by a commensurate reduction in government expenditure. Indeed, the effects of continual high defence spending and the Kuwait crisis exacerbated the problem. Budget deficits are not a new phenomenon in Saudi Arabia; for instance, in the pre-oil era the country witnessed several budget deficits and also during some years of the boom years expenditures exceeded revenues. While the deficits in the pre-oil era were predominantly covered through the contributions of foreign countries, the deficits in the 1970s were easily covered by higher oil revenues in the following years. In the fiscal year of 1977/ 78 for example there was a budget deficit of over \$1 billion, followed the next year by a deficit of \$4.3 billion (Kanovsky, 1980, p.138). Pressures on the budget eased again when uncertainties about oil supplies in the wake of the Iranian revolution led to higher production rates and substantial oil price increases. Since 1983/84 budget deficits have been a yearly occurrence increasing particularly after the dramatic oil price drop in 1985. For the first time in the fiscal year of 1983/84 a deficit of SR 35billion was planned by the Saudi authorities, the subsequent year the planned deficit increased to SR46 billion. The 1985/86 budget was supposed to balance again but resulted in a SR50.4 billion deficit (EIU Country Profile, 1988-89, p.28) despite spending cuts from SR 284.6 billion in 1981/82 to SR137.4 billion in 1986. The seriousness of the budgetary problem became evident when the publication of the 1986/87 budget was deferred to December. It projected government revenue at SR107 billion (for comparison the budget for 1981/82 was SR368 billion) and spending was reduced to SR160 billion, actual revenue however amounted to only SR76.5 billion. Towards the end of the 1980s the main financial indicators improved again, oil prices stabilised, albeit at a lower level, the government initiated several reforms and a local borrowing scheme, thus in 1989 the budget deficit was reduced to almost half of the 1987 level.



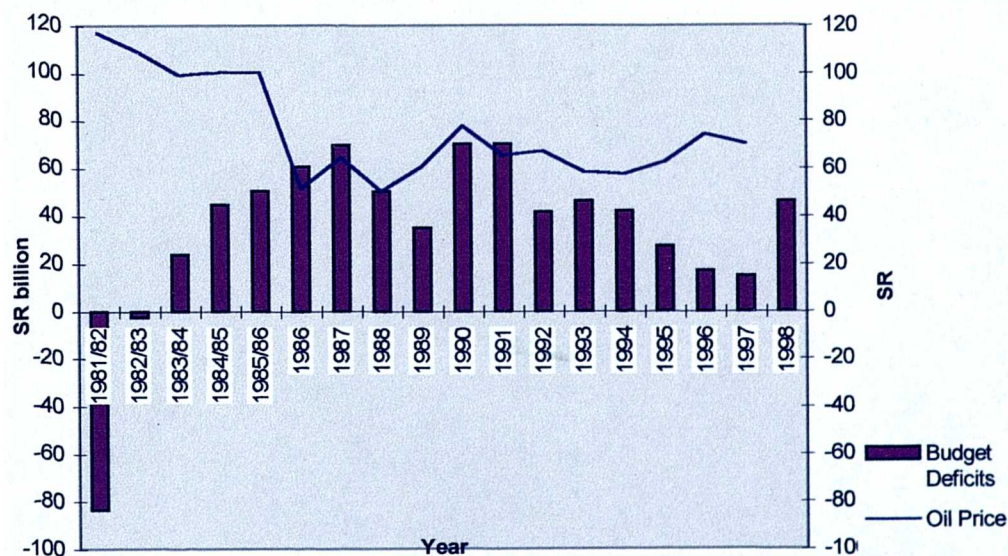
The following chart shows the development of the budgets and the increase of the deficits from the fiscal year 1983/84 onwards. The subsequent graph (Graph 8) highlights the relationship between declining oil revenues and the budget deficit.

Graph 7 BUDGETS (1973 - 1998)



- See Statistical Appendix, Table VII for the actual size of the budgetary deficits.

Graph 8 BUDGET DEFICITS AND OIL PRICE (1981-1998)



- See Statistical Appendix, Table II for oil prices and Table VII for budgetary deficits.

In 1991 no budget was published due to the Gulf War, later 1991 and 1992 were considered as one fiscal period with a budget deficit of approximately SR140 billion mainly attributable to the costs of the Gulf War, amounting to at least SR111.4 billion in emergency expenditure. The budget deficit fell again in 1992 to 9.2 per cent of GDP but rose to 10.7 per cent in 1993 due to weaker oil prices. For 1994 the government aimed to balance revenues and expenditures with a 19 per cent reduction in subsidies, defence allocations and new projects. However, due to low oil prices targets could not be met and the deficit amounted to SR42.1 billion, representing approximately 9 per cent of GDP. Efforts to reduce the budget deficit were intensified in 1995 with the introduction of charges for electricity, water, work permits etc. The measures, which were intended to raise government income between SR12 and SR13 billion and combined with expenditure cuts were supposed to reduce the budget deficit to SR10 billion, proved to be only partially successful. Actual non-oil revenue amounted to SR7.3 billion and expenditure increased by SR2.8 billion. No significant subsidy cuts or price rises were introduced in the following years.

With the exception of 1998 the ratio of budget deficit to GDP has been gradually decreasing in the 1990s. In 1996 higher oil prices led to a significant reduction of the deficit, boosting revenues to SR177 billion against an anticipated SR131.5 billion. In 1996 the deficit represented only 3.3 per cent of GDP, falling to 2.9 per cent in 1997. For the 1997 budget the government announced an increase in spending of 50 per cent for education to SR41.7 billion, of 35 per cent for health and social services and of 40 per cent for infrastructure and industry. The 1998 budget deficit was projected at SR18 billion but with oil prices far lower than anticipated, it reached SR46 and the deficit as a percentage of GDP amounted to over 9 per cent. At the beginning of the year the government announced a 8 per cent rise in expenditure to SR196 billion but in May after it became clear that there would be a shortfall in revenues, it ordered a 10 per cent reduction in spending and a payment delayment of 180 days for state contracts (MEED, 27 November 1998).

The discrepancies between targeted and actual government revenues and expenditures are enormous. In 1987 for instance budgetary authorisations amounted to SR107 billion for revenues and SR160 billion for expenditures, while actual revenue amounted to SR104 billion and expenditure to SR174 billion, in 1995 expected and actual revenues

differed by SR11 billion and expected and actual expenditures by SR24 billion. Similarly, in 1998 while revenue was targeted to amount to SR178 billion and expenditure to SR196 billion, actual revenue reached only SR143 billion while actual expenditure was cut to below the anticipated level, to SR189 billion (EIU Country Profile, 1991-92 and 1999-2000). The Sixth Development Plan interestingly no longer includes projections of government revenues and expenditures, an indication of the unpredictability of the oil revenues but also a sign of an increasing awareness of the economic realities on the part of the government.

At the onset of the recession the Saudi government drew on its huge financial assets to cushion the effects of the economic downturn on the country. As discussed in Chapter 3, in the 1970s the absorptive capacity of the Saudi economy did not equal export earnings from oil and large capital surpluses could be accumulated and invested abroad. This surplus decreased from 1982 onwards as the current account deficits were covered through the repatriation of investments abroad. Saudi Arabia's foreign assets<sup>16</sup> declined from a high of SR472.93 billions in 1982 to less than half to SR226.64 billion in 1989 and to SR193.03 billion in 1993 (IMF, International Financial Statistics Yearbook 1997, pp.724).

As a result, the structure of capital flows witnessed substantial changes in the 1980s, whereas in 1981 the total outflow of domestic capital amounted to more than SR30 billion, Saudi Arabia became a net recipient of capital inflows (mainly domestic) after 1983. Net direct investment inflows have been high in the early 1980s and again in 1990 and 1993, falling again in 1994 and 1995<sup>17</sup> and only slightly rose in 1997 to \$2.6 billion (EIU Country Profile, 1999-2000, p.46). In the long term, the government will need to divert more efforts into encouraging the repatriation of Saudi flight capital estimated at \$470 billion, particularly the capital of around 120,000 'high net worth individuals' holding an estimated \$400 billion (THE MIDDLE EAST, October 1998, p.27 and p.41).<sup>18</sup> In order to be able to encourage Saudis to invest more in their own country, the initiation of reforms in the regulatory and legal framework of the country seems to be more important than the improvement of macroeconomic indicators, like the size of annual revenues and deficits.



The drop in overseas assets and investment returns exacerbates the effects of low oil revenues, the 'safety cushion' that *inter alia* could soften the implications of low oil prices has almost disappeared. The loss of the 'safety cushion', although temporarily mitigated by the resort to domestic borrowing, has, as will be seen later on, far reaching consequences for the role of the state in the economy, particularly for its role as a mediating force between the domestic and the international market forces.

Towards the end of the 1980s the government began increasingly to borrow from domestic and to a lesser extent from international sources. In the 1990s current account deficits were covered predominantly by private capital inflows, for instance, in 1991 79 per cent of the current account deficit, which included the expenses for the Gulf War, were covered through private domestic capital inflows (EIU Country Profile, 1997-98, p.49). Already in 1984 SAMA had issued bankers security deposit accounts, a non-negotiable, short-term loan system but the facility was used primarily to regulate short-term liquidity in the banking system rather than as a means to finance the public deficit. In 1988 development bonds for one or five year maturities were issued to assist in the financing of development projects, their profit was linked to the performance of development projects. In the first year of their existence, the government intended to issue SR30 billion equivalent to the anticipated deficit followed by SR25 billion in 1989. In November 1991 a further step was taken with the introduction of short-term treasury bills and in August 1994 a \$280 million (SR1,049 million) five-year floating note was issued. In 1996 the government issued a total of SR9 billion in bonds to cover the government's arrears to the farmers, which were repaid in August 1998. Also many arrears to the construction industry were settled by issuing special bonds, in the first ten months of 1998 alone bonds of SR14 billion were issued (MEED, 27 November 1998, p.24).

At the end of 1995 public sector debt rose to 86 per cent (SR405.3 billion) of GDP from 52 per cent (SR236 billion) in 1992 (THE MIDDLE EAST, October 1998, p.28). In 1998 domestic debt is estimated to have risen to over 100 per cent of GDP (EIU Country Profile, 1999-2000, p.23). An IMF Staff report argued that in the long-run the rising domestic public sector debt might lead to a 'debt trap', whereby ever-increasing interest payments could make structural reforms difficult to implement (EIU Country Report, 4<sup>th</sup> quarter 1995, p.12). The issuance of development bonds could also have

adverse effects for the availability of credit facilities for the private sector and could ultimately increase the pressure on foreign assets and the stability of the exchange rate.

In 1992 the government also borrowed \$4.5 billion from Western banks in order to pay for the Kuwait crisis, repayments for which were made in 1994 and 1995. Officially there is no foreign debt, nevertheless, through loans by state enterprises on the international market, the government indirectly borrows on the international market. For example, in 1997 the Saudi government guaranteed a loan of \$4.33 billion for Saudia as the airline was not able to secure international credit without the backing of the government (FT, 8 November 1998). Saudi Aramco, owned by the state, is also looking to international banks to fund some of its activities.

Foreign investment remains restricted to some sectors and is primarily linked to offset programmes which, in return for defence procurement contracts, require foreign firms to plough back a percentage of the contract value by investing in the local economy. For example 35 per cent of the Peace Shield Programme with the United States will be reinvested in the Saudi economy over the next 10 to 12 years (EIU Country Profile, 1997-98, p.50). In most of the other sectors foreign companies (with the exception of GCC companies) require a Saudi sponsor for their economic activities. Borrowing from the international market and an increase in foreign investment would necessitate reform measures and deregulation, which at the moment seems unlikely to occur. However, Crown Prince Abdullah on a visit to Washington in 1998 indicated that the government might reduce some limitations. He declared that “[i]ndeed, the kingdom has no alternative but to diversify and develop the sources of national income by expanding investment channels, opening doors for international companies and offering them lucrative incentives” (MEED, 27 November 1998, p.22). A new foreign investment law, reducing the organisational obstacles for foreign investors and initiating tax breaks, is expected to be introduced soon (EIU Country Profile, 1999-2000, pp.46). Most foreign investment will remain limited to industrial, agricultural and healthcare developments and for the moment it is unlikely to be extended to other areas.

### **The Government's Response - Economic Reform Measures**

The previous sections have shown that an external solution to the fiscal crisis, i.e. that expenditures and the burden of the welfarist state can be matched by an increase in oil receipts either through the rise in price or production over a sustained period of time, is unlikely to occur in the short or medium-term. With financial assets severely drawn down and limited other means of generating income, the government is compelled to introduce cuts in subsidies and support programmes as well as other economic reforms. Aware of the unpopularity of austerity measures and their socio-political repercussions, reforms were introduced reluctantly and, as will be seen below, withdrawn in politically sensitive moments. In times of a fiscal crisis most governments prefer to pursue a policy of adapting to smaller incomes rather than accepting the need to change the economic foundations and the allocative nature of the state since this could engender a change of the institutional system and thus ultimately a loss of authority. Before explaining the socio-political and structural inhibitions to reform measures, the following section will examine the government's response to the recession.

As one of the first steps to cut expenditures the government halved the 20 per cent up-front payments to contractors for public sector contracts and implemented bidding for government contracts.<sup>19</sup> Additionally, many projects were cancelled or their payment delayed, which had severe consequences particularly for the construction industry and the service sector, triggering off a "domino effect; contractors couldn't pay their suppliers because they themselves hadn't been paid. A whole chain of contractors, sub-contractors, suppliers and shippers teetered on the edge of bankruptcy" (Wilson, 1991, pp.116-117).<sup>20</sup> The sales of some companies decreased by 20 to 30 percent within a brief time span and within one year the demand for certain products dropped by over 60 to 70 per cent (Business International, June 1989, p.2). According to a report issued by the Ministry of Commerce, 300 limited liability partnerships were liquidated in 1983 and 1984. Hardest hit was the construction industry, whose main client is the state, it witnessed substantial losses, many companies had to rely on credits and several went bankrupt. A lot of businesses could no longer pay for their loans, in 1986 up to 30 per cent of private companies faced problems with loan payments to commercial banks and stated their inability to pay their employees (Chaudhry, 1997, p.273). Due to the difficulties of enforcing loan payments the commercial banks also entered a severe crisis. Many were also affected by a drop in the real estate value as the government's

appropriation policy ended. During 1983 to 1985 the property values in Jeddah, for example, dropped by 40 per cent resulting in the loss of billions of Saudi riyals for some speculators and the banks that had accepted mortgages and real estate as collaterals also faced serious difficulties (Azzam, 1988, p.4).

In the agricultural sector the government began to cut subsidies for the production of wheat, which on occasions amounted to more than \$300/ton, introduced quotas for the purchase at guaranteed prices and encouraged the production of other grains.<sup>21</sup> Efforts to cut the wheat programme were opposed by a strong 'wheat growers lobby', their influence showed in 1986, when wheat farmers initiated a campaign that eventually convinced the government to revoke its plans. After that the government tried to resort to delaying payments but this proved to be an ineffective measure, especially against influential producers.

At the end of 1985 the government reintroduced *zakat* taxes for Saudi and GCC nationals as well as profit taxes for foreign companies, fees were collected on cigarettes and pilgrims had to pay a new head tax.<sup>22</sup> In January 1988 the government attempted to impose income tax on expatriates. The resulting protest particularly of the Saudi business élite represents an illustrating example of the difficulties facing the government in raising revenue through taxation. Many expatriates employed in the oil, health, banking and military sectors considered their resignations prior to the designated initial tax date. In order to avoid widespread disruption the king had to recall the new income tax law and postponed the raise of certain customs tariffs and utility charges. This incidence highlighted Saudi Arabia's dependence on the expatriate workforce, but more importantly, it showed the lack of dialogue between the government and the business sector (EIU, 1<sup>st</sup> quarter 1988, pp.5), an issue that will be dealt with in greater detail in the last section of this chapter.

With a growing number of young Saudis seeking entry into the job market at a time when the private sector was in contraction, the government reactivated protective labour regulations, also called 'Saudi-isation' laws. According to official statistics of the Ministry of Finance almost 370,000 workers (including expatriates) lost their jobs in the late 1980s and the problem of unemployment, as will be seen later, has been worsening.<sup>23</sup> Already the Labour and Workman regulations of 1969 stipulate that 75 per cent of a

company's workforce and 51 per cent of its payroll must be Saudi citizens, yet these regulations were never enforced. Progress in the government's Saudi-isation programme was very slow and 'success stories' often depended on substantive state investments into training and wage and benefits packages. Efforts concentrate on the public sector and so far 'Saudi-ised' positions remain predominantly white-collar jobs in management, administration, sales or marketing. SABIC, mostly state-owned, for example managed to increase the number of Saudis employed to 56 per cent so that at the end of 1988 4,633 out of 8,219 of SABIC's employees were Saudi nationals (MEED Profile, March 1990, p.91). In the private sector Saudi-isation programmes are more difficult to reinforce as Saudi labour is considered to be more expensive and less productive than expatriates. This is particularly so since labour costs fell in the late 1980s due to lower demand and the international economic situation. For instance, whereas in 1982 a factory worker from the Philippines cost SR2,500 to SR3,000 per month, the cost decreased to SR1,000 to SR1,500 in 1988. A Saudi national for the position of a bank clerk would be paid SR3,000 to SR3,500 compared to SR2,000 for a Pakistani or Egyptian for the same job (Business International, June 1989, p.16).

The Sixth Development Plan (SDP) emphasises the importance of Saudi-isation, stating that the number of job vacancies for all sectors during the SDP period will be 340,000 while the number of Saudis seeking employment is projected to amount to 660,000, hence 320,000 jobs will have to be found or created. There are significant differences in the availability of job opportunities between the various sectors, for instance, in the agricultural sector 43,000 job vacancies are anticipated while it is estimated that only 24,400 Saudi nationals would be willing to accept such jobs, for clerical jobs, job openings will be 43,600 for approximately 159,300 new job entrants (Sixth Development Plan, 1995, pp.181). To what extent the Saudi-isation measures will be compulsory is not entirely clear, as the SDP does not provide clear indications or concrete means to achieve the anticipated targets. In 1995 the government set targets for the private sector and decided that any business that does not increase the proportion of Saudi employees by 5 per cent per annum would be subject to sanctions. Additionally, the government raised the costs for employing foreign workers through an increase in visa charges and the introduction of health insurance payments, of which 80 per cent have to be paid by the employer and 20 per cent by the employee (MEED, 5 April 1996, pp.56).<sup>24</sup> In order to encourage the employment of Saudis the government could increase further the taxes

on expatriate visas but this could have implications for the competitiveness, particularly in labour intensive industries that rely on Asian workers, and thereby would ultimately be against the interest of a large segment of the business community. In July 1998 further measures were implemented to cut the expatriate labour force, restricting the length of employment for foreign workers to ten years in the public sector and calling for the non-renewal of contracts of some of the foreign workers.

Several initiatives have been launched to provide more training for Saudi job entrants. Training efforts, particularly those encouraging vocational training, are not only limited to the government but also include several initiatives by the private sector under the umbrella of the Saudi Chambers of Commerce. New entrants to the job market prefer public sector employment, yet there are increasing signs that young Saudis take jobs that they previously did not consider, like hotel receptionists, working for the airline Saudia, etc.<sup>25</sup> At the moment it is estimated that around 7 per cent of Saudis work in the private sector (FT, 11 March 1997) and only 13.6 per cent of the total workforce in private-sector companies with more than 10 employees are Saudi citizens (EIU, 4<sup>th</sup> quarter 1998, p.17).

The decrease in government expenditure and the recession also had some beneficial aspects in the sense that falling demand and increased competition necessitated more financial discipline and effective management. While during the boom demand for goods and services often outstripped supply and even less effective businesses could survive, the recession 'weeded out' many non efficient businesses practices. Towards the late 1980s the economy showed first signs of a recovery, businesses adjusted to lower revenues and increased competition, and began to reorientate towards the GCC market. At the height of oil revenues in 1981/82 private consumption was less significant than government investment and consumption and amounted to less than a quarter of the total spending in the economy. By 1987 private spending became the most important source of demand and consumption by the public and the private sector came to represent the most important source of expenditure in the economy (MEED Profile, 1990, p.30).<sup>26</sup> There was also a shift in the emphasis in the composition of GNP, the investment/consumption ratio used to be 70:30 during the oil boom, but towards the end of the 1980s the situation reversed to a ratio similar to other countries (Business International, 1989, p.5).

The Sixth Development Plan (SDP) reflects the government's reluctance to introduce thorough reforms and to relinquish part of its economic role. More than its predecessors it focuses on qualitative targets, especially on the general improvement in the quality and efficiency of government services. Its intention is to improve "economic efficiency by raising labor productivity through training, by using the latest technology, by other means at accelerating the Saudiization of the work force... Such efficiency measures will help to slow down the rising costs of providing services..." (SDP, 1995, p.47). In the 1990s the government's economic policy concentrated mostly on expenditure cuts in project spending and in reducing the amount of subsidies. Subsidy cuts in the 1990s began to hit more the coveted agricultural sector.<sup>27</sup> In 1992 the state-owned Grain Silos and Flour Mills Organisation purchased only 70 per cent of the harvest and in 1993 only 30 per cent, causing wheat production to fall to 2.15 million tons in 1993. In 1994 the Minister of Agriculture, Mr. Abdallah Moammar, announced that the Kingdom had put an end to the generous subsidies for wheat farming and that the government is trying to reduce future harvest to 2 million tons through a strict regime of subsidy cuts and wheat farming permits (FT, 17 November 1994). In September 1994 these measures provoked widespread discontent and unrest in the agricultural area of Buraydah one of the most affected by the state's intention to cut its subsidies to wheat farmers (FT, 18 November 1994).<sup>28</sup> After another reduction in the price for Saudi wheat from SR2/kg to SR1.5/kg in May 1995, wheat harvest fell to 1.2 million in 1996. With domestic consumption at 1.8 million ton the country is importing wheat again. Additionally, almost all subsidies for barley have been ceased and farmers are encouraged to shift to higher value-added crops (EIU Country Profile, 1999-2000, p.30). As a result, a significant portion of agricultural land lies idle, the amount of imports have risen again and the goal of self-sufficiency appears to have vanished.

A significant change in Saudi fiscal policy was the decision to raise the charges for electricity, water, telephone and airfares in 1995. Prices for petrol doubled, higher charges for electricity were introduced and a fee of SR1000 for visas and work and residence permits was imposed (FT, 2 January 1995). The price rises for electricity were primarily aimed at commercial users using more than 2000 kW/hrs as well as to cut wasted energy. According to official estimates 60 per cent of the population will not be affected by these measures (EIU, 1<sup>st</sup> quarter 1995, p.4). This is in line with the Economic Principles of the Basic Law, which states in article 20 that "taxes and fees are to be

imposed on a basis of justice and only when the need arises” (EIU, 4<sup>th</sup> quarter 1998, p.14). Since then the government has been very reluctant to increase utilities fees further and is seeking to avoid the imposition of fees which would affect the living standards of the poorer Saudis. However, small increases followed in mid 1997 with a rise in customs duties for cigarettes and tobacco by 100 per cent.<sup>29</sup> In 1998 after another drop in oil revenues, the Saudi government announced spending cuts of 10 per cent in May, in August Saudia increased its fares for First and Business Class domestic flights and raised airport taxes as well as the visa costs for visitors, furthermore it halted the signing of any new contracts and stopped hiring for public sector posts. The government seems also intent on enforcing the payment of bills and as a first step passed a decree ordering the disconnection of mobile telephones in case of non-payment.<sup>30</sup> At the beginning of 1999 petrol prices increased again by 50 per cent.

The above described reactions of the Saudi government to its fiscal problems and the targets set out in recent development plans raise the question whether they represent the beginning of a transformation of the state from an allocative state to one that puts increasing emphasis on its extractive capabilities and efficiency determinants. The following part will discuss some of the problems that the government has to confront and take into account when introducing economic reforms.

## **‘BEYOND RENTIERISM’? - THE SEARCH FOR CONSENSUS**

In an era of fiscal stringency the scope of government actions in terms of economic restructuring is determined by its capacity to overcome, or to control, social resistance. The structural limits of state power are tested and the state’s “intervention often require the complicity of forces the state tries to regulate or direct” (Gourevitch, 1986, p.230). The regime needs to elicit consensus for most changes in its economic policy which raises the important question whether and in which way this consensus can be achieved with or without an opening up in the political space and, in case consensus cannot be achieved, whether a displacement of crisis from the economic to the political realm will take place. The formation of social groupings in Saudi Arabia during the boom years proved to be an obstacle for economic reforms. Many liberalisation attempts, as will be shown below, were forestalled by the highly protected private sector élite, linked to the



ruling élite through business, tribal and often also through familial ties. The introduction of economic and political reforms would also require the ruling family to relinquish its dominant role in the economy and its exclusive control and unchecked access to oil revenues. A more active role for the private sector means a reconsideration of the distributive role of the state. Private ownership of industrial companies entails financial power, which ultimately engenders a multiplication of decision-making centres, i.e. political power outside the royal family. While economic liberalisation does not necessarily lead to political liberalisation, a multiplication of interest groups and organisations, all in competition with each other, is likely to emerge. Thus a strong private sector, although encouraged by the state, might be against the interest of the ruling family.<sup>31</sup>

In welfare states the main constraints to economic reforms tend to be political, but there are also institutional obstacles. In rentier states this tendency is even more pronounced, inadequate or underdeveloped institutions, for instance, for the introduction of taxation aggravate the problem. In Saudi Arabia the influx of external revenue did impair not only the development of political institutions but also that of extractive, information gathering and regulatory institutions, which has important implications for the implementation of economic reforms. Regulatory financial, legal and administrative institutions, necessary for the definition of property rights, enforcement of contracts and the promotion of competitiveness still remain only rudimentarily developed. The banking system remains inhibited through the prohibition of *riba* <sup>32</sup> and the complicated circumvention of this prohibition. Chaudhry argued that the importance of informal relations and access to key members of the royal family did not allow for the emergence of a widespread acceptance of norms of competition and equality under the law (Chaudhry, 1997, p.33). Additionally, there is a strict control over the information flow and basic data like population censuses, the ensuing obscurity poses difficulties for potential investors. Okruhlik observed that:

Private investors are not antiproduktive and speculation-oriented simply because profits accumulate more quickly in non industrial activities. Rather, investors do not have access to accurate demographic information on which to base long-term decisions. There is no predictability in the behavior of some princes, no recourse for stolen proposals, no framework for development, and no assurance that investors will maintain control over their investments...[T]hese

conditions are not attributable to rent per se, but rather to uncertainty in the investment environment which largely reflects the personal nature of the state. Any preference for trade reflects the political reality of insecurity (Okruhlik, 1999, p.309).

### **Socio-political Constraints to Economic Reform Measures**

The economic downturn, the government's response to it and its effectiveness differed significantly depending on the various economic sectors and on the different phases of the recession. Kiren Chaudhry described it as follows: "[s]tate autonomy, efficacy, and capacity varied by case, by sector, and over time - as did the preferences and the efficacy of the different segments of the private sector" (Chaudhry, 1997, p.292). She argued that it is particularly important to look at the government's policies vis-à-vis the finance sector, which illustrates the importance of consensus between the state and in particular the business élite:

The regulation of finance - unlike trade, industry, and real estate - required the consent if not the active participation of private-sector elites. In finance, the same links between top echelon of private-sector elites and the state which forestalled austerity and taxation enabled the Saudi government to implement broad institutional changes that withdrew important concessions from the domestic business classes but extended legal protection to solvent borrowers and banks (Chaudhry, 1997, p.286).

As mentioned previously, the Kingdom's twelve commercial banks were severely affected by the economic downturn, particularly by non-performing loans, and their profits fell dramatically after 1984. The Saudi British Bank, for example, made losses of \$1.2 million (SR4.4 million) in 1987 and of \$63.8 million (SR239.3 million) in 1988 (MEED Profile, March 1990). The main problem the banks faced was the inability of the courts to enforce interest payments and to take steps against hundreds of influential borrowers reneging on their loan obligations. Initially the government denied that the difficulties were mounting and responded only reluctantly to the problems of the commercial banks. Its position on the financial sector's problems evolved gradually; each position was "marked by shifting alliances between business, the Islamic jurists, regulators, and the banks - and with each shift, government regulations changed to match the articulated interests of Saudi business" (Chaudhry, 1997, pp.278). Towards the end of the 1980s comprehensive reforms were introduced, several legal mechanisms were

institutionalised to regulate and to mediate in disputes between the government, banks and borrowers.<sup>33</sup>

In September 1985 regulations regarding the settlement of private financial claims were introduced, including provisions to prevent defendants against whom legal proceedings are pending, from leaving the Kingdom.<sup>34</sup> However, many of the bank claims were still dealt with at *shari'a* courts and no real improvement in the situation occurred. As one bank manager expressed it in 1986: “[t]he banks have not won a single case when it has gone to Sharia courts and companies are literally laughing all the way to the bank because they know they have religious backing for their actions” (Wilson, 1991, p.132). Kiren Chaudhry cites a report of the Riyadh Chamber of Commerce of 1986 urging the government to act: “it is more important to expand the role of banks than to adhere to the strictest interpretation of shari’a... We must have a stable legal system governing the long-term loan market, commercial papers and securities.” (Chaudhry, 1997, p.280). As a further step a Banking Disputes Committee was introduced in March 1987 under the umbrella of SAMA replacing the Committee for the Settlement of Commercial Disputes (CSCD) which used to be under the jurisdiction of the Board of Grievances. All cases regarding non-performing loans were transferred from the *shari'a* courts and the CSCD to the new body. Despite efforts by its creators to minimise points of controversy with the religious bodies, in particular the *shari'a* courts, the creation was strongly opposed by the Ministry of Justice.<sup>35</sup> The Minister of Commerce also announced that mortgages could be held as collaterals again despite the prohibition of it in the *shari'a*. Wilson argued that the committee’s survival, despite the strong opposition, is a reflection of the government’s determination to reach some sort of compromise to resolve the problem for the banks (Wilson, 1991, p.143). The main weakness of the new body is that it is limited to recommending actions and that it is not able to enforce its decisions. Seizure orders, for instance, still have to be approved by the respective governor of the provinces before being implemented. The new body has to take into account the position of the borrowers and their connections thus it focused often on ‘small fishes’ with weak links to the ruling family. Many commentators have observed that important personalities including members of the royal family seem to have been able to escape repaying debts, causing severe losses for the banks. Consequently bankers found a new ‘definition’ of what constituted a Saudi bank robbery: “lending to princes” (Wilson, 1991, p.132). Many ceased to lend and abandoned the domestic market as a result of the problems they

faced in enforcing payments and many try to avoid dealing with royal family members.<sup>36</sup> The banks' reluctance to lend was reflected in the well-known case of one of the largest contractors, MABCO, in December 1989. The company failed to secure financing for its project to build the concourse at the new King Fahd international airport and subsequently went bankrupt (Wilson, 1991, p.153). In 1996 the government further introduced Anti-Bankruptcy regulations in order to address the difficulties arising when a debtor cannot reach a settlement with his creditors. According to the new regulations, the debtor is able to file a settlement petition in front of the Board of Grievances.

### **Coalescence of Interests - A Pact between the 'Rich' and the 'Powerful'?**

In general the government was successful in the implementation of policies that affected the general population and foreign labour. Changes aimed at the merchant class or those requiring an institutional change did not succeed and were:

unceremoniously withdrawn...One by one these were successfully opposed through the Riyadh Chamber of Commerce and informal lobbying...In their opposition to regulation and tax, the Saudi private sector mobilised both primordial links and economic ties with bureaucrats and the Royal Family...Remarkably there was no struggle: the austerity programs were simply and quietly withdrawn... Consistently, legislation that was against the interest of business was passed, opposed, and withdrawn, upholding the interests of Nejd businessmen, local banks, Islamic jurists, and the landed elite against those of Saudi labor, consumers, international banks and foreigners (Chaudhry, 1989, pp. 139-140).

At the onset of the economic downturn, the demands for reforms and complaints of the different sectors of society varied enormously. While the industrial private sector called for higher tariffs and protection from cheaper imports, traders demanded lower tariffs and farmers called for the continuation of the extensive subsidies and price guarantees for their products. There was no concerted effort to press for a change in government policy, rather individuals tried to get close to important members of the government in order to extract favours from them. The state reacted to the demands for a change in economic policies and the withdrawal of certain measures on an individual basis. Later the government's economic policies demonstrate more a crystallisation of shared interest or needs, in particular with the business élite. The government became increasingly aware that the consent of the business élite was crucial for the successful implementation of its

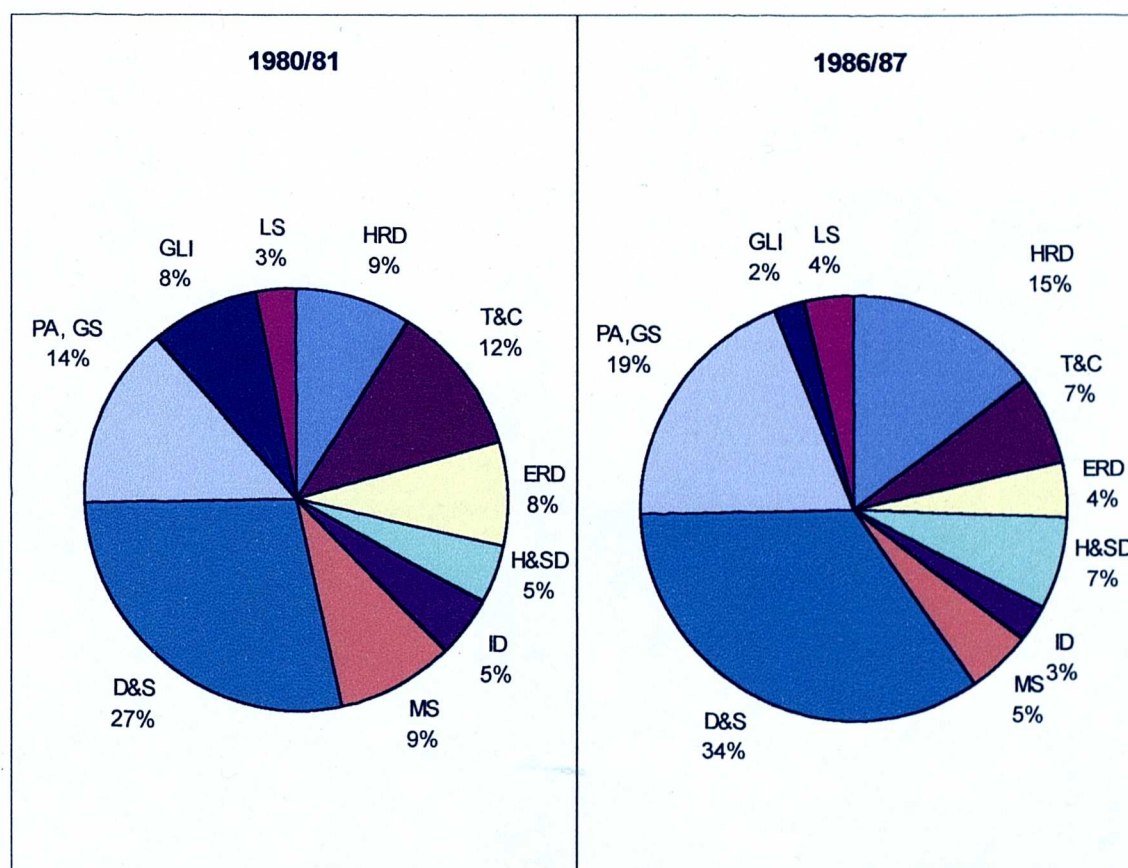
reform measures as well as for the private sector's participation in economic responsibilities. At the same time the interests of the business élite began to coalesce. They voiced their demands through the Saudi Chambers of Commerce and Industry,<sup>37</sup> particularly the Riyadh Chamber of Commerce, which successfully lobbied the government on its behalf. Often this group is linked economically and tribally to the royal family, they thus dispose of *al-hukumah* and often also of *al-dawlah* based access which significantly enhances their 'bargaining power' in blocking those austerity measures that they perceive to be against their interests. The above demonstrates that, despite its dependence on the state, the Saudi merchant class through its primordial links to the bureaucracy has actually increased its bargaining position during the recession. It could be argued that the business élite almost "defines the terms under which the post boom economy would function". This opposition and the government's outright capitulation does show "a great deal about the priorities of the regime and the efficacy of different social groups in Saudi Arabia" (Chaudry, 1992, p.160).

It would be misleading to assume that the government only withdraws or hesitates to introduce measures that harm the business élite. There is a tendency of the government to reduce the financial burden on its citizens in politically difficult situations, which became especially apparent during and immediately after the Kuwait crisis. Mortgage payments were lowered or cancelled, fodder prices for Saudi farmers decreased. In March 1992 prices for several consumer services were cut: the price for petrol decreased by 37 per cent, the price for natural gas, registration fees for businessmen was also cut by 87 per cent, etc. (FT, 25 March 1992). This was intended to alleviate the burden of the cost of living on the average citizens and to cushion the effects of the rise in inflation after the Kuwait crisis. The price cuts also coincided with an increasing number of demands, voiced in several petitions, for the accountability of the government, as will be discussed in Chapter 5.

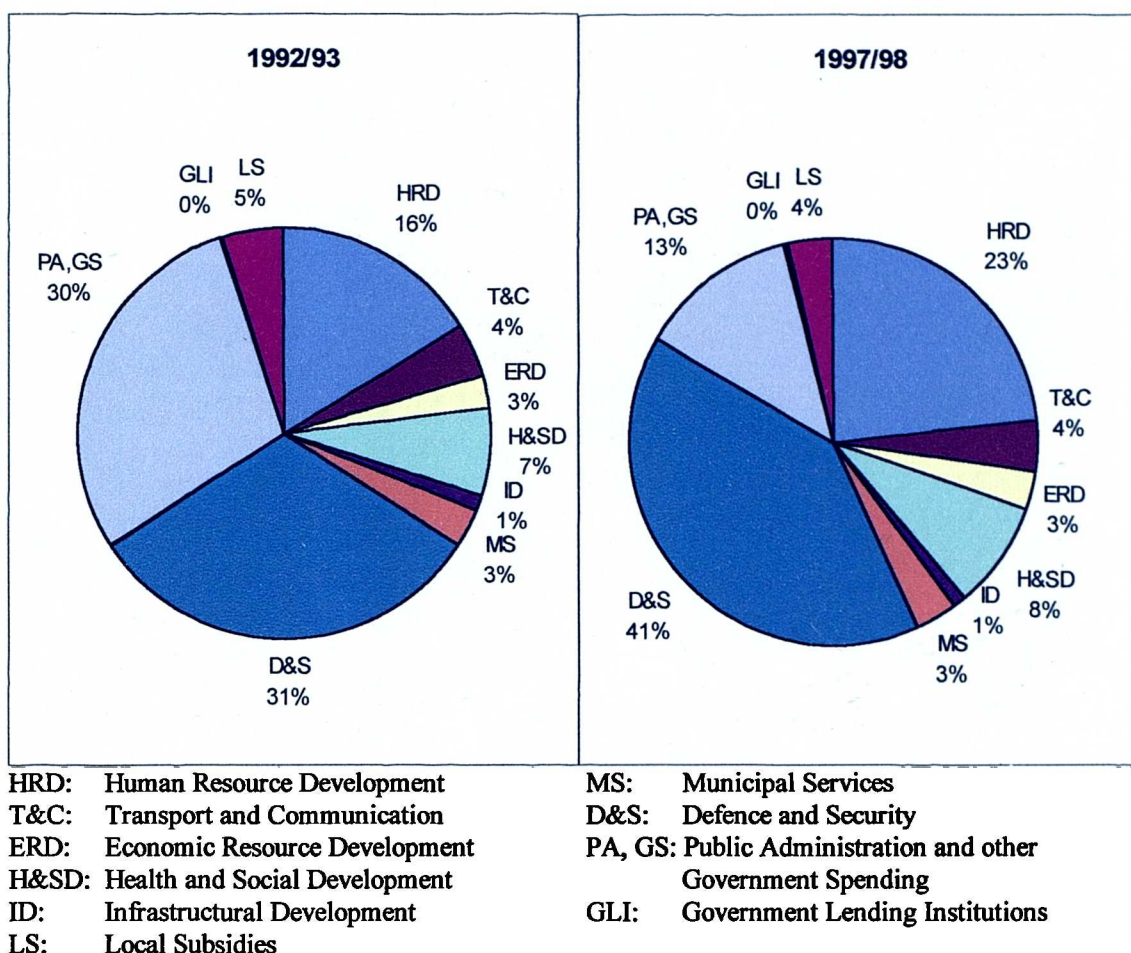
Although the government claims that the reductions do not harm the average Saudi and is intent on alleviating the effects on the most marginalised sections, the above described coalescence of interests seems to occur increasingly at the expense of a substantially larger section of the population, such as the average consumer and the growing number of unemployed, who do not have the same institutionalised connections, like the Saudi Chambers of Commerce, to press for their demands.

Despite the limitations of available data, it is possible to identify some basic tendencies and to draw tentative conclusions for the distribution of income. The way in which the government spends its money determines to a large extent the income distribution within the country. If the government decides to cut its overall expenditure for salaries of civil servants, this will have a direct impact on the financial position of the middle class, on the other hand, if the government decides to increase its expenditure for the military at the expense of wages, the income of a small business élite will increase.<sup>38</sup> In relative terms Saudi Arabia spent in the late 1980s more on defence than any other country per capita and per soldier, whereas the country ranked fifth in education and 13th in health spending per capita (Looney, 1990b, p.39). The following charts give an indication of the percentage of government expenditure on wages and salaries, defence, education and social security and its per capita distribution.

Chart 9 PUBLIC SECTOR EXPENDITURE (1980-1998)



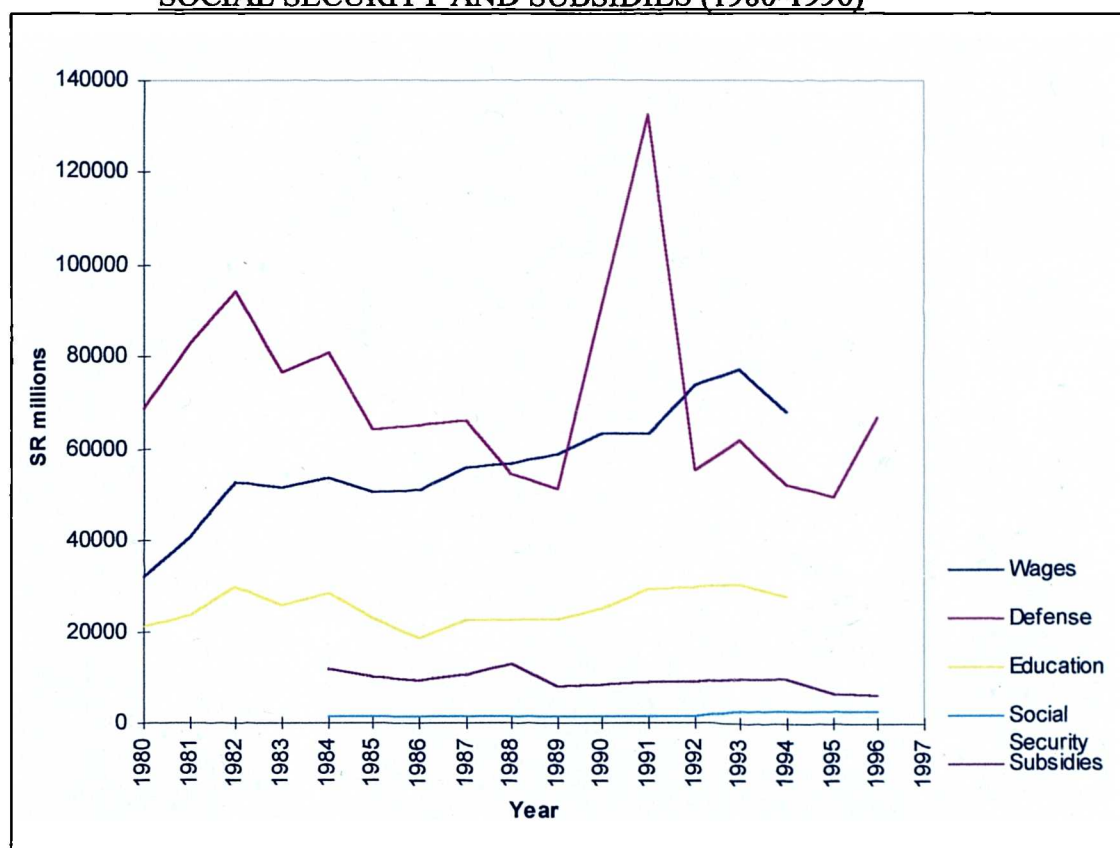




The charts indicate an interesting shift in the way the government spends its money. The proportion of military spending remained high despite lower oil revenues, in relation to other sectors it grew from 27 per cent in 1980/81 to 41 per cent in 1997/98 of overall government expenditure. Expenditure on human resource development has more than doubled and is only second to defence expenditure. With many construction projects completed, spending on infrastructure development decreased from 5 per cent to one per cent.

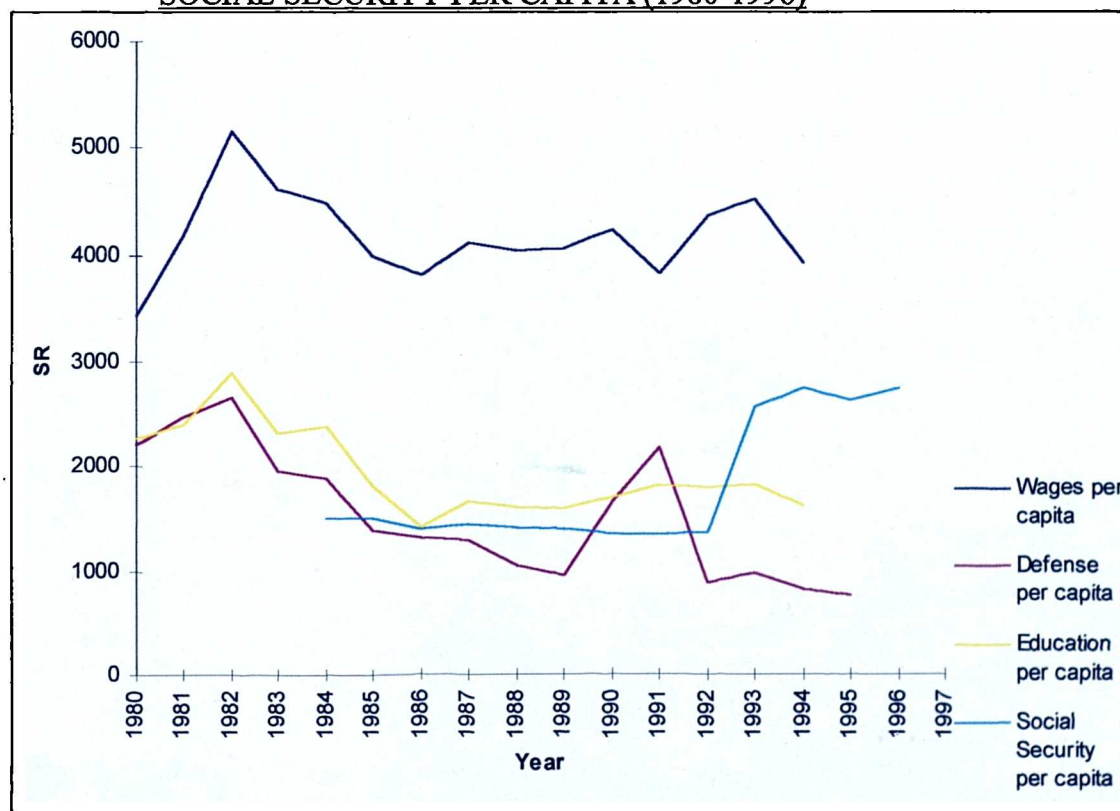
Graphs 10 and 11 show that while overall expenditure has remained relatively stable or even increased in some areas such as wages, the increase in population has reduced the per capita share. This is particularly evident in public expenditure for education and for wages.

**Graph 10 PUBLIC SECTOR EXPENDITURE- WAGES, DEFENCE, EDUCATION, SOCIAL SECURITY AND SUBSIDIES (1980-1996)**



- See Statistical Appendix, Table IX, for figures.
- Pre 1984 figures for social security and subsidies are not available on a yearly basis.

**Graph 11 PUBLIC SECTOR EXPENDITURE- WAGES, DEFENCE, EDUCATION SOCIAL SECURITY PER CAPITA (1980-1996)**



- See Statistical Appendix, Table IX, for figures.



A decline in oil revenues and the ensuing fiscal crisis of the state does not mean that suddenly the whole nation faces a descent from wealth. For the average Saudi, the impact of the decline of oil revenues shows gradually, this was particularly the case in the mid 1980s when the government drew on its foreign reserves or borrowed from domestic sources to maintain most of its spending. Nevertheless, gradually the standard of living declines for the majority of the Saudi population, the per capita income dropped from an all time high in 1981 of \$12,600 to \$6,750 in 1993 and Saudi Arabia was ranked as a middle income country by the World Bank (FT, 22 December 1993) and there are many indications of a crystallisation of increasing wealth discrepancies and poverty.<sup>39</sup> Higher prices as a result of the cuts in consumer subsidies and other entitlements, in particular the price rises of 1995 for electricity (although a sliding scale was used to mitigate the effect on the poorer Saudis) water and petrol, affected the average Saudi family. In 1995 the consumer price index (CPI) averaged 5.1 per cent.<sup>40</sup> The price increases of 1995 are significantly higher than previous rises, like the price rise of 1 per cent in 1993/94, of 2.1 per cent in 1990 and 4.9 per cent in 1991 during the Kuwait crisis (EIU Country Profile, 1994-95, p.17).

Particularly in those sectors that require large investments, the envisaged participation of the private sector in the economy is likely, as mentioned above, to lead to a transfer of state assets into the hands of a few 'high net worth individuals', many of them royals. Given the strong links between the government and business interests and the enormous concentration of wealth within the élite, the latter is likely to determine the future development of the private sector and investment patterns (Mohamedi, 1997). As mentioned before, between 80,000 to 120,000 of so-called 'high net worth' Saudis, i.e. less than one per cent of the total population dispose over \$400 to \$500 billion.<sup>41</sup> It is estimated that 40 businessmen representing 16 Saudi families control over one third of the main shareholding companies in Saudi Arabia and only five Saudi families control ten per cent of the seats on the Board of Saudi joint-stock companies.<sup>42</sup> As mentioned in the second chapter, the majority of these families are those who have been instrumental in Ibn Saud's conquest at the beginning of the twentieth century. Many of the top echelon of the bureaucrats come from families with a mercantile urban background which were already privileged in the pre-oil era: "once they leave governmental service, they instantly become leaders of private businesses. Even before they retire from governmental service, they are usually partners with other businessmen in major private establishments whose

main, if not only, source of profit is through dealings with the Ministry or public agency that is headed by the bureaucratic partner” (Krimly, 1993, pp.357-358).<sup>43</sup> They thus dispose over both types of access to the government, the *al-dawlah* and the *al-hukumah* based access, explained in the first chapter, which significantly enhances their overall bargaining power. Their wealth and influence also remains concentrated, as one observer commented, “[t]he salient characteristic of all major merchant families is that they are keen on developing alliances to complement, rather than compete with, each other and have an undeclared pact to keep new merchant families out of the field” (ARABIES TRENDS, January 1999, p.35).

Chapter 3 has demonstrated how fairly liberal promotion policies gave most Saudis access to well-paid jobs in the public sector and the boom years created an illusion of an ever expanding economy and rising social mobility. Students graduating from foreign and Saudi universities were guaranteed employment in the government apparatus. In 1985, at a time when the private sector witnessed contraction, government offices and agencies were instructed not to hire additional personnel.<sup>44</sup> Between 1988 and 1993 1.39 million workers lost their jobs in the private sector, the losses in the government sector were less severe, numbering 93,114 between 1988 and 1990.<sup>45</sup> While a considerable part of the job losses are related to the mass exodus of foreign workers after the Kuwait crisis, the other part is clearly a result of the economic recession. The recession hit primarily the lesser educated Saudis for whom it is difficult to find jobs as cheaper expatriate workers are more ready to take low paid and manual jobs.

Table 10 shows the highest levels of education attained by Saudi citizens, 41.6 per cent of them complete their education before reaching secondary schools. The Sixth Development Plan estimates that 27.9 per cent of the new entrants to the labour market would be dropouts from elementary and adult vocational training programmes (Sixth Development Plan, 1995, p.171). With the demand for a secular education in the government service and the private sector being high, job competition is likely to be primarily between those educated at universities abroad or at the three main ‘secular’ Saudi universities and those with a traditional educational background from the religious universities, who can easily resent and feel threatened or left out by the new middle class (Chaudhry, 1997). Previously the state apparatus absorbed most of them engendering the expectation that once graduated or once leaving school a job, often in prestigious

positions in the state apparatus, was secure. Once the state can no longer provide positions for all and once the differences in levels of education start to reflect more in the recruitment practices this could lead to the emergence of a class consciousness among the marginalised.

Table 10. LEVELS OF EDUCATION

Highest Level of Education Completed	Number (1000 persons)	Ratio %
University (1)	114.7	17.4
- Social Sciences and Islamic	48.4	7.3
Technological Colleges	12.8	1.9
Secondary Schools	221.1	33.5
Intermediate Schools (1)	127.6	19.3
Elementary Schools (1)	80.0	12.1
Less than Elementary Schools	67.1	10.2
Pre-Service Adult Vocational Training	36.6	5.6
<b>TOTAL</b>	<b>659.9</b>	<b>100.0</b>

Source: Sixth Development Plan, p. 179

- (1) Figures include those who have withdrawn without completing the next level of the training programme.

Over the next year the creation of new jobs will be one of the most pressing problems for Saudi society.<sup>46</sup> By the year 2000 half of the population will be between the age of 15 and 59 years, compared to 46 per cent in 1990. Already at the beginning of the 1990s roughly 150,000 young Saudis entered the job market every year (Azzam, 1993, p.4). The Fifth Development Plan anticipated that 575,000 Saudis would enter the job market between 1990 and 1995, most of them were expected to find employment in the private sector. 294,000 new jobs were hoped to be created while another 281,000 already existing positions were expected to be 'saudi-ised'. In reality the total number of Saudis employed rose by only 402,700 in the Fifth Plan period, 170,000 less than anticipated, from a total of 1.98 million to 2.38 million and the share of Saudis increased from 32.8 per cent to 34.7 per cent in the same period. The largest increase was in the community and personal services sectors (Sixth Development Plan, 1995, p.79). The impact of the population growth, the need for government services and the development of human resources is also one of the main objectives of the new Seventh Five Year Development Plan (2000-2004), which calls for further Saudi-isation and upgrading efficiency.<sup>47</sup>

## **Globalisation - A Changing Role for the State?**

In the course of the recession not only the economic conditions changed but also the links between the domestic and the international economy. An important transformation has occurred in the role of the state as mediator between the different economic sectors and the international economy. This transformation is happening gradually and is intensifying with the prolongment of the fiscal crisis, the drawing down of assets, the change in consumption patterns and the shift in the sectoral distribution of GDP. Although oil prices had already begun to drop after 1981, the downturn was not felt immediately by the population as the government cushioned the effects by drawing down its assets (see also Graph 2). After 1983 government spending decreased and the effects of the recession began to be felt by all sectors of the economy. As Kiren Chaudhry observed, once the government is no longer able to cushion the effects of the international market forces, the Saudi population becomes increasingly exposed to the price fluctuations and shocks of the international market (Chaudhry, 1997, p.305)

As another result of the increased integration of the Saudi economy into the international system, the system for exclusive agency rules, described in Chapter 3, changed gradually in the course of the recession. A fact which, as Okruhlik argued, poses a challenge to the old pattern of economic behaviour and increases the competition for and the significance of connections to the government (Okruhlik, 1992, pp.129).<sup>48</sup> Other factors also enhance the internationalisation of the Saudi economy in the long-term. Saudi Arabia is seeking greater integration into the world's economic system and has commenced talks about entry into the World Trade Organisation (WTO). Initially entry was targeted for 1997 but it seems that the country will not be able to join at least until the year 2000. The government hopes with the status of most favoured nation to gain better access to world markets for its petrochemical industry and also to challenge the discriminatory taxation imposed by most Western states on oil products. An opening up of the highly protected economy to foreign goods and services would require fundamental restructuring of the economic base. Saudi Arabia would have to revise its rules concerning exclusive agency laws, restrictions on company ownership, sponsorship regulations and would have to expose its nascent industrial sector to competition from abroad. Internal affairs would be subject to international scrutiny thus preparing the way for more transparency and accountability in governmental decisions. A revision of these laws is likely to be resisted by vested interests within the business sector but also within some part of the ruling

family. The requirement of local sponsors for any foreign company involved in business in Saudi Arabia has, as mentioned in the previous chapter, contributed significantly to the enrichment of the local business community, high import levels are thus in their interest (MEED Profile, March 1995, p.36). At the moment it appears that the required legislation is only considered at the conceptional level and that it is not part of the public debate.<sup>49</sup> However, the Saudi Minister of Commerce, Osama bin Jaafar bin Ibrahim Faqih, indicated that the government would be willing to introduce some of these measures and acknowledged that the increased competition would displace some of the weak industries and that a reduction of customs duties would require the government to look for alternative sources of revenue (EIU, 4<sup>th</sup> quarter 1998, p.25). Saudi Arabia would also have to enforce intellectual property rights. As a first step in 1994 Saudi Arabia acceded to the Universal Copyright Convention and subsequently several recent cases and actions by the administration were taken against those violating the convention. Further legal reforms were introduced when Saudi Arabia joined - albeit with reservations - the New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards in 1994.<sup>50</sup>

The gradual loss of the role of the state as mediator between the international and the domestic economy affects the Saudi government's ability to postpone certain political correlates of a fiscal crisis hence has important implications for its ability to determine the crisis path. As Ayubi pointed out, in the absence of a civil society and without the institutionalised mechanisms representing the interests of all sections of the populations, interest articulation tends to be direct.<sup>51</sup> In the 1980s complaints of the private sector focused predominantly on non-political issues, for instance on the slow reaction of the government bureaucracy to the problems of the banks, or subsidy cuts. After the Kuwait crisis this scenario began to change and the complaints began to include political demands. As discussed in Chapter 1, increasing wealth gaps and the coalescence of interests between the government and 'the rich' are not conducive to building widespread consensus for internal integration and could easily be interpreted as a failure on the part of the ruling family and focus points for opponents of the regime, as the following two chapters will show.

## NOTES

<sup>1</sup> Figures for oil export earnings see Statistical Appendix.

<sup>2</sup> See discussion in Chapter 1 of the contradictions of the welfare state, which exhibits similar features to the rentier state.

<sup>3</sup> Another recent example of the government's way to paint a rosy picture of the economic situation is King Fahd's announcement in the 1997 budget statement that GDP grew by 8.6 per cent during 1996 while the IMF estimates that real GDP grew by only of 2.4 per cent (FT, 11 March 1997).

<sup>4</sup> Kingdom of Saudi Arabia TV1, Riyadh, 22 September 1996 quoted in SWB ME/2725 MED/12, 24 September 1996.

<sup>5</sup> This development might prove even more harmful for the oil exporting countries in case a more stringent environmental tax is introduced. Such a move is staunchly opposed by the oil exporting countries, particularly because it violates the principle of 'reciprocal security', where oil producing countries commit themselves to guaranteeing secure supplies in return for a commitment by consumer countries not to introduce restrictions to oil imports (Sarkis, 1993, p.6).

<sup>6</sup> Production was estimated to start in 1998 and to reach half a million b/d. The oil field finally opened in March 1999. Further expansion requires huge investments for the construction of infrastructure in the area and a pipeline. Shaybah reserves are estimated to amount to up to 7 billion barrels of high quality crude (EIU Country Profile, 1999-2000, p.33).

<sup>7</sup> For instance, in case the Umr Qasr port facilities are rebuilt, it is expected that Iraq could export up to 3 million b/d after the lifting of sanctions (Mohamedi, 1997, p.4).

<sup>8</sup> Krimly (1999, p.255) cited a study by Fahid Tahrir and Muhammad Safwat Qabil, "The Development of the Deficit in the Saudi Budget 1973-1992" in *DIRASAT AL-KHALIJ WA AL-JAZIRA AL-ARABIYYA*, summer 1996, no.82, p.199.

<sup>9</sup> The expansion of the petrochemical industry depends on the continued supply of natural gas. Saudi Arabia's proven gas reserves are 5.9 trillion cubic metres (equivalent to 3.8 per cent of world reserves). In 1999 gas production reached 43.9 billion cubic metres, an increase in output of 6.2 per cent from 1996 (EIU Country Profile, 1999-2000, p.35).

<sup>10</sup> See Statistical Appendix for exact figures and Table 4 in Chapter 3. As already alluded to in the previous chapter, it is difficult to distinguish between a wholly self-generating private-sector economic growth and growth fed by government expenditure. Although oil and non-oil sectors feature separately in national accounts, increases in non-oil activity are often a reflection of increased oil sector activity such as the Aramco capital programme (MEED, 11 November 1994, p.61).

<sup>11</sup> See Statistical Appendix for exact figures.

<sup>12</sup> Figures on military spending vary enormously, for example, between Saudi Government and US sources. For more detail see Cordesman, 1993, p.567. Expenditure for defence was estimated at SR67 billion for 1997 and is expected to be approximately the same in 1998 (FT, 31 December 1997). Often the actual size of weapon deals, like the 20 billion pound Al-Yamanah deal signed between Britain and Saudi Arabia, are not known, not to speak of the commissions involved, a substantial percentage of which goes directly into the pockets of members of the royal family. The British government denies that any commissions were paid to secure the Al-Yamanah deal. Nevertheless, in a writ by a Panamanian company it is claimed that commissions of 8 per cent of the purchase price were paid. It further alleges that the true commissions amounted to 15 per cent plus 100 per cent for products over 2.3 million pounds. Rolls Royce is supposed to having paid 8 per cent (in total 23 million pounds) for its military sales between 1992 and 1997 (FT, 20 December 1997).

<sup>13</sup> The Gulf War also led to a short term economic boom generated by government spending and military purchases. The block of Kuwaiti and Iraqi oil led to an increase in oil prices and Saudi oil production increased from 5.7 m b/d in August 1990 to 8.5 m b/d at the beginning of 1991, which increased the revenues in 1990 to \$40.1 billion. However oil prices which had reached almost \$40/barrel declined again at the beginning of 1991 to around \$20/b. The overall financial gain from the rise of oil prices and increased production for Saudi Arabia was estimated to be as low as \$16 to \$17 billion (FT, 2 January 1991).

<sup>14</sup> The results of the 1992 General Census of Housing and Population, particularly the figures relating to the percentage of foreigners, should be treated with a measure of scepticism. Independent analysts have estimated the total population at 11.4 million with 8.1 million Saudis (EIU, Country Profile, 1997-98, pp.22). See also Chapter 3.

<sup>15</sup> The additional revenue from the extra charges introduced in 1995 (see later) are used to build up a fund to finance the expansion of projects.

<sup>16</sup> For statistics on capital account see Table X of Statistical Appendix. The exact size and deployment of Saudi Arabia's official foreign assets is difficult to determine because information about SAMA controlled assets are limited.

<sup>17</sup> The direct investment inflows are mainly domestic.

<sup>18</sup> The Financial Times estimates private sector capital to amount to \$ 500 billion belonging to around 80,000 individuals (FT, 8 May 1998).

<sup>19</sup> Previously the government used to award contracts to the private sector without bidding. As a result of open bidding the costs of projects could be reduced by a third and sometimes by up to half of the costs.

<sup>20</sup> In 1995 the government regularised some of its arrears to domestic contractors by issuing special bonds. No official figures were released regarding the remaining arrears, estimated to amount to SR15 billion (EIU Country Report, 4<sup>th</sup> quarter 1995, p.12).

<sup>21</sup> In 1991/92, for instance, the government bought wheat for \$ 480/ton while the world market price amounted to only \$100/ton (EIU Country Profile, 1999-2000, p.30). See also section on agriculture, Chapter 3.

<sup>22</sup> Resolution of the President of the Council of Ministers 215, 1405/11/5 and resolution of the President of the Council of Ministers 254, 1403/11/14 (Chaudhry, 1997).

<sup>23</sup> See Statistical Appendix. Another motivation for reducing the expatriate's contribution, is the large transfer of funds abroad. According to a senior government official, the wage transfers of approximately 6.5 million expatriates amount to \$90 billion per annum (interview conducted in London, 23 June 1999 with Dr. Abdul Rahman Alshaya, Director of Economic Research Unit, Saudi Embassy, London).

<sup>24</sup> Prior to 1995 health insurance was provided free of charge for all Muslim workers.

<sup>25</sup> Assessment made on the basis of several personal interviews. Also, for example, in September 1998 the Saudi newspaper Al-Jazirah published an article claiming that more and more Saudis are willing to take up blue-collar jobs (SWB 15 September 1998 MEW/0555 WME/16).

<sup>26</sup> See also Chapter 3.

<sup>27</sup> See also section on agriculture, Chapter 3.

<sup>28</sup> The unrest was also caused by the detention of a prominent cleric. Over 100 demonstrators are said to have been arrested during clashes with the authorities (see Chapter 6 for more detail).

<sup>29</sup> Saudi radio SWB ME/2966 MED/11, 9 July 1997.

<sup>30</sup> The decree was signed on 18 May but did not become public until July (EIU, 4<sup>th</sup> quarter 1998, p.13).

<sup>31</sup> See also Chapters 1 and 3. Privatisation and a trend towards less direct distribution of the oil rent does not necessarily entail a reduced role of the state. Chatelus cited the examples of Korea and Taiwan, where the role of the state in the economy was of paramount importance in the industrialisation process. However, it has to be pointed out that the nature and the extent of the state involvement in the industry was quite different, which could explain the differences between the Arab and the South East Asian countries (Chatelus, 1987, pp.114).

<sup>32</sup> *Riba*, usury or charging interest, is forbidden by Islam.

<sup>33</sup> Chaudhry distinguished between three phases in the evolving government-business relationship concerning the financial sector (Chaudhry, 1997). Saudi Arabia's legal system is based on the *shari'a*. In 1955 the Board of Grievances was established and in 1970 the Ministry of Justice. The Ministry of Justice administers the *shari'a* courts. Disputes relating to codified regulations are dealt with by the Board of Grievances or by special courts. The Ministry of Labour and Social Affairs has also a Supreme Committee for the settlement of labour disputes and the Ministry of Commerce is responsible for the Commercial Disputes Settlement Committee.

<sup>34</sup> For the full text of the order Nr.17/1085 from 18 September 1985 see MEED, 4 January 1986, pp.35. The order does not apply to claims concerning public sector contracts, which are dealt with by the Board of Grievances and the 1983 arbitration regulations.

<sup>35</sup> It is interesting to note that King Fahd issued a royal order (Royal Order 729/8) rather than a royal decree. A royal order is much less embarrassing and easier to recall, in case religious opposition proves to be too strong (Wilson, 1991, p.142).

<sup>36</sup> Similar views were expressed in several interviews.

<sup>37</sup> One third of the Board of the Chambers of Commerce is appointed by the Ministry of Commerce, the rest is elected by the members, making the Chambers of Commerce the only directly elected body in the country.

<sup>38</sup> See also previous chapter and Kavoussi, 1983.

<sup>39</sup> Assessment based on information gathered in interviews with several Saudis. There are also a few newspaper reports, for instance, according to one source around 10,000 Saudis have been arrested in 1997 for begging (L'Orient-le Jour, 11 November 1997, report from AFP).

<sup>40</sup> The price index, determined by SAMA, covers the middle income population of the ten largest cities in Saudi Arabia.

<sup>41</sup> Estimates from THE MIDDLE EAST, October 1998, p.27 and p.41 and FT, 8 May, 1998 (see also above). Calculations are based on the population total of 1995 which, according to government figures, was 18.25 million Saudis.

<sup>42</sup> The 5 families are: Al-Rajihi, Al-Rasheed, Al-Issa, Bin Laden, Sebai. A recent report by the Saudi Chambers of Commerce highlights that 30 Saudi businessmen occupy 90 seats on the board of shareholding firms (ARABIES TRENDS, January 1999, p.35).

<sup>43</sup> Krimly cited the examples of several ex-ministers like Ahmad Zaki Yamani, who is the son of an important member of the Hijazi religious elite, or Hisham Nasir who also comes from a prominent merchant family in Jeddah. Other examples are the al-Gosaibi or al-Zamil family (Krimly, 1993, p.357).

<sup>44</sup> Abir, p. 21, from Saudi Gazette, 1 August 1986. Also Chaudhry, 1997 who quotes a statement from the president of Bureau of the Civil Service, Turki Al-Sudairi, from Saudi Gazette, 14 March 1986, p.3.

<sup>45</sup> See Statistical Appendix for employment figures.

<sup>46</sup> It is difficult to estimate how many Saudis are unemployed in the moment, estimates vary between 2, 10 and 25 per cent. Estimates are difficult due to the high number of Saudis engaged in periodic work or in family businesses and, of course, the restricted disclosure of sensitive data by the government. In an article appearing in FORBES, Caspar Weinberger estimated that 3 million people are facing the possibility of unemployment (FORBES, 19 April 1999).

<sup>47</sup> Press Release, Royal Saudi Embassy in Washington, 13 August 1999 (available under [www.saudiembassy.net/press\\_release](http://www.saudiembassy.net/press_release)).

<sup>48</sup> For example, Okruhlik described how several international companies, eager to increase their sales, began to exert pressure and changed their distributors. For further details of companies involved, see Okruhlik, 1992, pp.129.

<sup>49</sup> From a paper delivered by Shaykh Salah Al-Hejailan, Chair, Euro-Arab Arbitration System, in SOAS, University of London, 18 June 1998.

<sup>50</sup> The Royal Decree that approved Saudi Arabia's accession states that recognition and enforcement of foreign arbitral awards are limited to those made in the members states of the New York Convention. Additionally, awards must comply with *shari'a* law as well as the general public policy prevailing in the Kingdom. From a paper delivered by Shaykh Salah Al-Hejailan (Chair, Euro-Arab Arbitration System) in SOAS, University of London, 18 June 1998.

<sup>51</sup> See Chapter 1.



## Chapter Five

### THE POLITICS OF THE FISCAL CRISIS

A despotic government may appear to hold its subjects in a band of iron, but in a crisis or in war, if the iron were to snap, the whole structure falls to pieces. Government by consent is like a thread. A thread is sometimes stronger than iron (Ibn Saud).<sup>1</sup>

The previous chapter highlighted the deterioration of the financial situation of the state and emphasised that the necessity to generate new forms of revenue constitutes an important stimulating factor for the introduction of economic reforms. Economic reforms are, in turn, inextricably linked to a commitment to the rule of law, a free flow of information and a certain degree of popular participation. As Chapter 1 already discussed, no automatic or direct relationship between a fiscal crisis of the state and political liberalisation exists, a severe economic crisis can also lead to increased authoritarianism and repression. Alan Richards aptly summarised it: “[j]ust because economic imperatives require political participation does not mean that it will happen...The negative model of repression, violence, and chaos is feasible. The only positive alternative is broader participation and the rule of law” (Richards, 1993, p.218). The following two chapters will try to examine which ‘path’ Saudi Arabia is likely to take to relieve the mounting pressures and demands; if there will be some measure of political liberalisation or if, in the light of growing discontent and dissent, the regime will increasingly resort to repression.<sup>2</sup>

Some commentators have stated that, “the key question is not whether democracy is compatible with Islam but whether democracy is compatible with Oil. The bases of Arab authoritarianism lie first of all in the socio-economic structures of the post W.W.II era” (MERIP, January/February 1992, p.47). Yet, as much as the rentier state phenomenon has not been the only determinant factor for the evolution of the political processes in Saudi Arabia, a decline in oil wealth will not be the only factor pushing for political reforms. Growing societal expectations, for instance, coincide with the fiscal problems of the state, the impact of which is further reinforced by other factors, such as favouritism and unequal distribution of wealth, the domestic repercussions of the Kuwait crisis as well as developments in neighbouring countries. The increased

internationalisation of the Saudi economy has also important consequences for the socio-political dynamics inside the Kingdom. The impact of the recession on the population is likely to accelerate the politicisation of the society but it would be wrong to assume that the Saudi population has ever been completely depoliticised, as the long history of opposition to the Al-Saud regime demonstrates (see Chapter 6). To comprehend the multitude of challenges facing the Al-Saud regime it is crucial to examine the different groups pressing for change, their interests and the mechanisms or channels that connect them to the ruling family or governmental apparatus and to analyse how these groups relate to each other and when and where their interests clash or coalesce.

The first section of this chapter discusses the factors that contribute to the mounting pressures on the government and examines how they may shape and transform the attitudes of the population towards the ruling family. It focuses first on the developments and changes in the business community, already alluded to in the previous chapter, and then proceeds with a discussion of the impact of the Kuwait crisis and the influence of events in neighbouring countries. The analysis can only provide an overview of the main political changes in the aftermath of the war, it is beyond the scope of this study to give a detailed account of the Kuwait crisis and its influence on the region, which has been dealt with previously in many books and articles.<sup>3</sup> The section is also concerned with the situation of women whose role has gradually evolved over the last decades, but whose participation in the political and public life remains heavily circumscribed by the regime's need to present a pious image. The discussion of the role of women in Saudi society will concentrate on the impact of the economic recession on the position of women. Saudiisation efforts will increase the job opportunities for the increasingly educated Saudi women, additionally, many women are likely to have to complement to the household income. While this may present an opportunity for a relaxation on the restrictions imposed on women, the issue of women's rights is still very closely connected to the regime's Islamic legitimacy. The enforcement of the restrictions on women's participation in public life and employment seems to increase during a crisis situation and whenever the regime feels threatened by Islamic critics.

In the wake of the Kuwait crisis discontent with government policies and the increased political awareness has manifested itself in petitions to the king for political reform from

the 'liberal' as well as the Islamic constituency.<sup>4</sup> The government responded to the demands with the initiation of several reforms, the introduction of a Basic Law, a Consultative Council (*majlis al-shura*) and the establishment of some form of administrative regional devolution. The final section of this chapter is dedicated to an analysis of these reforms. It focuses on the scope of the reforms and looks at the extent to which they may or may not satisfy the demands of the different constituencies. This will then give a clearer picture of the rationale behind the escalation of the criticisms against the government and the rise of a more vocal opposition described in the last chapter.

## **MOUNTING PRESSURES - FROM ECONOMICS TO POLITICS?**

The principal threat to the stability of a traditional society comes not from invasion by foreign armies but from invasion of foreign ideas. The printed and spoken word can move quicker and penetrate further than can regiments and tanks. The stability of twentieth century traditional monarchies is endangered from within rather than from without... (Huntington, 1968, p.155).

As discussed in Chapter 1, tensions arising from the modernisation process are often considered as contributing to instability and political upheaval. So far in Saudi Arabia the modernisation process and tradition seem to coexist relatively peacefully. However, while the Al-Saud regime remains in power, beneath the surface social realities have changed dramatically necessitating, as some observers argued, a readjustment of the nature of state power (Salamé, 1994, p.2). Oil wealth has induced social change, most significantly it has transformed the stratification of Saudi society. As discussed in the preceding chapters, the modernisation process and the government's distribution policies have led to the evolution of new social groupings. Widespread education, the means to travel or study abroad and the influence of a substantial number of expatriates have contributed to the transformation of the individual's political awareness.<sup>5</sup> Dankwart Rustow argued that "the most powerful impetus to change in this era has been the global trend of intensifying communication and economic integration. Whereas democracies have thrived amid this flood of messages and goods, dictatorships had difficulty isolating themselves from it" (Rustow, 1990, p.79). Access to foreign sources of mass media through travel, the fax machine or satellite TV have opened up different

channels of information and helped to circumvent the tightly controlled Saudi press. The fax machine and the cassette have become the main means of the government's opponents for spreading their messages. Education, mass communication and the extensive infrastructure have also contributed to the development of better links between the Saudi population itself, links that cut across the family and tribal base.

The influx of information proves more and more difficult to control, while in the 1970s only businesses were allowed to have photocopying machines and certain typewriters,<sup>6</sup> economic development, the advent of fax machines and e-mail make these restrictions hard to enforce. Intercepting radio broadcasts, like the Arabic broadcasts from Iran, is very difficult and often fails. The number of satellite dishes 'mushroomed' especially during the Kuwait crisis with purchases of at least 20,000 dishes. Complaints by religious leaders, alarmed by the 'corrupting influence' of foreign TV broadcasts, subsequently intensified and in March 1994 the government moved to ban satellite dishes.<sup>7</sup> The Interior Ministry reiterated the ban in June adding that anyone found owning or importing a dish faces its immediate confiscation and fines between SR100,000 and SR500,000 (APS, 27 June 1994, p.16). However, the ban has not been strictly enforced and many households continue to have satellite dishes. In May 1998 the government announced the legalisation of the Internet and the link-up with servers started in December 1998 under the control of the businessman Prince Walid bin Talal.

These developments affect the government as well as the religious groupings often opposed to technological innovations. Mamoun Fandy has described the challenge of globalised communications as follows: "[w]hile the local population of Saudi Arabia can vehemently oppose the physical presence of foreign troops on Saudi soil, they cannot prevent the cyberspace presence of foreign, global ideas and trends. Even those opposition leaders who decry Western influences are themselves influenced by global discourses and technologies" (Fandy, 1999, p.240).

While the country witnessed a profound economic transformation, the Saudi royal family tried to maintain the cultural, religious and political foundations of its regime. The ruling family insists that this transformation can be reconciled with the traditional values of Saudi Arabia and continues to stress the interaction between economic development and traditions. Yet, often the House of Saud emphasises the importance of traditional values to justify its reluctance to introduce political and social reforms.

Efforts to protect and promote traditional values, especially the attitude towards women, are therefore often instrumental in maintaining hegemony and internal security (Niblock, 1982, p.76). Rapid economic development and modernisation gave rise to a change in the modes of production and the way pre-oil era modes of production are articulated with the rentier mode of production. Furthermore, they engendered widespread education, communication exchanges, exposure to the outside world and concomitantly de-tribalisation as well as urbanisation. Since this also engenders a change in the economic foundations of the individual's existence and his/her attitudes and value system, it is likely to lead, almost inevitably, to a disruption or disintegration of the traditional social order.<sup>8</sup>

Proponents of the modernisation theory have maintained that economic development and the concomitant educational and employment opportunities, the exposure to foreign media and the growing emphasis on achievement and rationality will eventually produce a dynamic that will lead to the opening of the political space. Authors analysing the impact of modernisation and development on Saudi Arabian society have taken two different approaches. Some emphasised the potential for and inevitability of conflict between the modernisation process and traditional values, others stress the interaction between economic development and tradition and the success of the House of Saud in reconciling both. Helen Lackner, for example, contended that the impact of financial wealth and the 'modernising' influence of the West on Saudi puritanism produced a cultural crisis, that threatens to undermine the foundations of the monarchical rule. With the destruction of the traditional Bedouin culture, Wahhabism has lost its real roots and no genuine culture consistent with the economic developments in the country emerged. Modernisation and Westernisation have provided the population with material improvements but with a lifestyle in contradiction to the puritan ideology the regime claims to adhere to. Ghassan Salamé pointed out that the reinvention and use of tradition is a process with contemporary objectives in mind, an observation which could provide an explanation for the selectivity with which tradition is used, i.e. political expediency and legitimization. But he also cautions that "[a]ny simple reading of these societies is bound to become simplistic, for it seems that the ravages of modernity are found as inevitably as the remnants of identity from a more distant past" (Salamé, 1994, p.5).

The Saudi state has attempted to erode the influence of competing sources of power, through sedentarisation policies for example, while attempting to integrate 'traditional' elements of society through a variety of corporatist-type mechanisms, the continuation of patronage networks, co-optation, reconciliation, etc. The effectiveness and success of these mechanisms can almost exclusively be attributed to the immense financial resources which allowed the House of Saud to fund a policy of appeasement and of buying allegiances. Many strains and contradictions are therefore compounded by oil wealth, with its decline, the challenges inherent in the modernisation process may gain momentum and resurface. Another side effect of the modernisation process is that it has victimised substantial parts of society and has left significant numbers of Saudis marginalised. In this context it is important, for instance, to look at regional and religious cleavages that continue to persist today and transcend into occupational patterns (Chaudhry, 1989, Salamé, 1994).

Oil wealth has, of course, not been the only source of mitigating the effects of change, Summer Scott Huyette stressed the importance of family, cultural norms and Islam as sources of continuity and argued that the way these forces interact shapes the characteristics and the direction of Saudi evolution (Huyette, 1985, p.1). The nature and extent of this coexistence and the use of Islam as a source of legitimation does depend significantly on the relationship between the religious establishment and the royal family which will be dealt with in the final chapter.

One group that has undergone significant changes since the mid 1980s is the business community which has asserted a private identity. As business interests became more coherent and occasionally coalesced, the business community became more active in articulating its collective interests and engaged actively in the political debate. The business community represents an important constituency for pressurising the government to implement reforms, particularly those concerning a more regularised framework for commercial relations and the introduction of the rule of law (Okruhlik, 1992). The debates occurring within the Saudi business community are indicative of the discussions throughout the wider Saudi society. The call for a clear legal framework for commercial relations reflects a demand for the rule of law with far reaching consequences for the relationship between the government and the population. It implies an end to the privileges accorded to the royal family and those with connections to it.

Gwenn Okruhlik has argued that “[b]usiness organizations serve as a safety valve for potential dissent...When Saudis question superficially economic issues (e.g. delayed payments on government contracts, basis for distribution of agency or distributor rights) they implicitly question the nature of rulership” (Okruhlik, 1992, p.44). It is important to emphasise that questioning the nature of rulership does not necessarily imply questioning the basis of the regime *per se*, i.e. the rule of the Al-Saud family. Too many of the interests of the business community remain intertwined with the rule of the House of Saud and almost everyone has a stake in the continuity of the current regime. Demands focus on good governance, an improvement of the administrative and legal framework and inclusion into the decision making process. Many Saudi businessmen argue that while the government encourages the private sector to take over more responsibilities, it has provided little in terms of a legal framework facilitating commercial activities and capital markets. Without such a clearly defined framework many indigenous as well as foreign investors hesitate to assume a greater role in the domestic market. Discontent among the business sector, as already mentioned in Chapter 4, arises primarily because of the direct or indirect interference of royal family members in the private sector, the favouritism in the distribution of contracts and foreign agencies, the delayment in payments, the monopolisation of the most lucrative government contracts and the creaming off of huge commissions by many members of the ruling family.<sup>9</sup> Due to the competition of royals or those with good connections, many smaller companies that face more bureaucratic hurdles have little chance to succeed, which often results in a hesitation to invest in the domestic economy.<sup>10</sup>

The degree of corruption and nepotism of many members of the House of Saud is difficult to justify and hide from the rest of the population. The exact amounts of money absorbed by the royal household are not known as oil income flows directly into the pockets of the rulers. To the ‘official’ allocations one has to add the thousands, sometimes millions of barrels of oil which are sold by some princes or their intermediaries outside the OPEC quota allocations on the international spot market as well as the free use of public services, like airline tickets, telephones, etc. For discontented citizens a corrupt regime and its economic policies are easier to pinpoint as the cause of the economic malaise than looking at the global context of oil price changes. Particularly in a period of economic difficulties the profligacy draws increased attention and could serve as a rallying cry for opposition forces.<sup>11</sup>

Government corruption, for instance has become the main focus of the Committee Against Corruption in Saudi Arabia (C.A.C.S.A.). It was founded in the aftermath of the Gulf War by a group of individuals who claim to have strong ties to the Saudi business community and which is apparently sponsored by a well-known Saudi businessman. Article 1 of its 'Mission statement' explains its objectives: "C.A.C.S.A. is a peaceful organization whose sole purpose is to bring about change in Saudi Arabia using the Internet..., is not affiliated with any political or religious group...condemns violence, fundamentalism and condones the interests of both the United States and Saudi Arabia".<sup>12</sup> The C.A.C.S.A. publishes extensive lists of 'frontmen', i.e. intermediaries, used by some members of the royal family to engage in business. Their message is primarily directed against King Fahd and his full-brothers and stresses that once power is completely transferred to Crown Prince Abdullah, who they claim is not corrupt, they would suspend their criticism of the government. It seems to be the only organised group claiming to represent the business community's grievances that operates from outside the Kingdom. However, with the availability of the Internet still very rudimentarily developed inside Saudi Arabia, its audience is mostly limited to the Saudi community abroad.

The communication of interests and complaints between the business community and government occurs, until now, primarily on an informal, *ad hoc* and personal basis. Consequently, the transmission of concerns are likely to exclude the majority of the owners of small and medium size businesses. Since the late 1980s the Chambers of Commerce have increasingly put forward the collective concerns of the business community. For many businessmen this has the added advantage that they are able to voice their complaints in a non-threatening manner and without disclosing their identity. Often the spokesmen of the business community are members of prominent families, who, on the one hand benefit from the maintenance of the old economic system but at the same time call for the regularisation of business-government relations (Okhrulik, 1992).<sup>13</sup> As discussed in Chapter 4, the Chambers of Commerce have been quite successful in pushing for certain reforms. The lack of linkages between the different levels of private businesses and the diversity of regional identities, inhibit, however, a further coalescence of interests and their translation into a more organised group. Additionally, the government is still reluctant to deal with the business community on a group basis, most Saudis thus continue to use established networks of interest mediation



like tribal or family links to promote their interests and to gain access to the rulers. Public, formal and collective communications are likely to remain less effective than individual informal lobbying. Nevertheless, as will be seen later on, some members of the liberal business élite have put forward their demands in an open letter to the king.

## **THE KUWAIT CRISIS - CATALYST FOR POPULAR DEMANDS IN THE GULF MONARCHIES**

After oil prices recovered slightly and the economic pressures had eased towards the end of the 1980s the Gulf monarchies or sheikhdoms faced a new challenge: the invasion of Kuwait by Iraqi forces on 2 August 1990. The war augmented the pressures on the Kingdom's treasury again and exacerbated the economic, religious and political tensions within Saudi Arabia but also within the whole region. The influx of foreign military personnel and the presence of foreign media briefly encouraged a more open climate in the Gulf countries and several of its leaders saw themselves compelled to promise an opening up of the political space. Many citizens thus hoped that the Kuwait crisis would represent a catalyst for liberalisation of the socio-political space and the introduction of reforms leading to popular participation. In most of the Gulf countries petitions were submitted to the rulers demanding the rule of law, institutionalised popular participation and more accountability of the government. It would, however, be misleading to believe that the war created new social forces in the Gulf countries,<sup>14</sup> pressures for change had been building up steadily for almost three decades but until the Kuwait crisis few opponents actively challenged the governments. In most countries hopes for reform were soon dashed, the post Kuwait crisis period proved to be a "false dawn of liberalism" (Abir, 1993, p.179) and soon the region was "back to business as usual" (Ayubi, 1995, p.430).<sup>15</sup>

The invasion of Kuwait by Iraq seemed to have taken the Saudi government by surprise and shock. Until 4 August, two days after Iraq had invaded Kuwait, the domestic media was instructed not to talk about the crisis. The government's media censorship seriously eroded its credibility and trust.<sup>16</sup> Focal points for critics also included government policies concerning defence and foreign policy, the alliance with the West as well as economic policies, particularly those related to oil pricing strategies. The reliance on the

West for the defence of the Kingdom has always been a sensitive issue for the government, a too obvious dependence is politically and religiously not justifiable hence the government always took great care to conceal the scope of its security partnership with the US. After Operation Desert Storm with thousands of Western troops stationed in the country this concealment was no longer possible.<sup>17</sup> The invitation of non-Muslim forces to defend the country undermined the Islamic legitimacy of the monarchy. Its endorsement by the state-sponsored *ulama* added many formerly quiescent critics from within the ranks of the *ulama* to those opposing the regime. Some even began to express criticism of the establishment *ulama*, as Chapter 6 will show in more detail.

### **Developments in Neighbouring Countries - The Fear of a Spill-over Effect**

Developments in the neighbouring countries increased the pressure on the Saudi government. Particularly in Kuwait hopes for a more liberalised post-war order were very high. During the Iraqi occupation of Kuwait Saudi Arabia accommodated over 120,000 Kuwaiti citizens. The Saudi government permitted a conference of prominent Kuwaiti citizens and representatives of the various political tendencies to be held on its soil. Participants of the conference demanded the reconvening of the dissolved Kuwaiti parliament from 1986 as well as the reinstatement of the constitution from 1962, which includes a bill of rights, provisions for the freedom of the press and tolerance in religious observance. The Kuwaiti Amir, who together with the crown prince attended the conference, promised that the National Assembly would be re-established and that elections would be held later in the year. This conference did not escape the attention of the Saudi public: “[i]n effect, the debate among the many interest groups who want greater participation in government decision making, which could not have taken place openly in Saudi Arabia, was being carried out by proxy through the Kuwaitis” (FT, 21 September 1995). The Kuwaiti elections of October 1992, for instance, were preceded by fierce political debates and the majority of the seats were won by independent candidates, particularly Islamists.<sup>18</sup> Also the subsequent debates occurring in the Kuwaiti parliament, especially the parliamentary investigations into the beneficiaries of the generous government loans in 1993, were watched with suspicion from the Saudi rulers.<sup>19</sup> The Kuwaiti parliament has continued to demand greater transparency in financial matters and also asked for a better insight into defence expenditures (EIU Country Profile Kuwait, 1998-99, p.6).

Fearing a spill-over effect, the Saudi government has tried to slow down or prevent political liberalisation moves in the neighbouring countries. Yemen's move towards democracy in April 1992, for instance, with relatively free elections, the first ever in the Arabian peninsula in which both men and women participated, arose similar fears within the Saudi government. In the other Gulf monarchies/sheikhdoms reforms were more cautious. In Oman Sultan Qabus announced the creation of a new consultative council with representatives elected from 50,000 notables of each province in November 1990. Since June 1998 women are also allowed to stand for elections and two were later elected to the *majlis*. In Qatar, some 54 leading Qataris signed a petition in December 1991 calling for greater participation in public life and free parliamentary elections. In March 1999 elections were held for a 29 member Central Municipal Council whose role is predominantly advisory. Interestingly, the voter turnout among women was reported to be higher than those of men (EIU Country Report Qatar, 2<sup>nd</sup> quarter 1999).

Developments in Bahrain have always been of particular concern to the Al-Saud due to Bahrain's proximity to Al-Hasa, where most of Saudi Arabia's Shi'a population and oil wealth is concentrated. As a result, the Saudi authorities have continuously and actively supported the Al-Khalifa family against any internal security threat. The introduction of an appointed consultative council in 1992 did not meet the expectations of the majority of the Bahraini population and in 1993 leading Bahraini Sunni and Shi'a citizens submitted a petition to the ruler calling for the restoration of the National Assembly, dissolved in 1974, the reinstitution of the constitution and the revocation of the state security law which had given the amir almost unchecked powers. Demonstrations demanding political and economic reforms erupted in 1994 and a new petition signed by approximately 25,000 people reiterated the demands, followed in March 1995 by another petition of professional women and around 200 other Bahraini citizens. The Bahraini government, with the assistance of the Saudi authorities, has responded to the demonstrations with the widespread use of the state security law and has detained several thousand people, some of them are still in detention without trial. The majority of the protesters are Shi'a, yet contrary to official statements blaming foreign instigators, i.e. Iran, for the fomenting of unrest among the Shi'a, the motivations for the riots and opposition in Bahrain are primarily indigenous, political and socio-economic and not sectarian in nature. High unemployment and a growing population against the background of diminishing oil resources and rampant discrimination of the Shi'a majority

provide ample ground for discontent. The conditions in Bahrain and the response of the government have contributed to a coalescence of interests between various groups and strata of society - Shi'as, Sunnis, liberals, leftists, Islamists, workers, professionals, intellectuals, men and women - as well as to the emergence of a relatively active and well organised opposition whose minimum demands for reform are very similar. Modest conciliatory steps towards reform have been made following the accession of Sheikh Hamad as the new amir in 1999.

Particularly in Kuwait and Bahrain, women have been at the forefront calling for reforms. In Kuwait, women have been campaigning for their right to vote and in May 1999 a decree was introduced giving them full electoral rights for the National Assembly and municipal council elections from the year 2003. In Bahrain the role of women in the call for political reforms has been important, for instance, they have participated in demonstrations, have signed an all-women's petition for reform and several women have been arrested for their political activities (Seikaly, 1998). In Saudi Arabia women are far more restricted in public life than in most of the other Gulf countries and, as seen below, Saudi women's demands have been less focused on political reforms than on more social freedom.

### **Women - The Fiscal Crisis as an Opportunity?**

Removing a woman from her home, which is her kingdom, means removing her from what her natural state and her character require. Women entering the realms of men is a danger for Islamic society in that it leads to mixing of the sexes which is considered the main path to adultery which splits society and wrecks morals (Grand Mufti Abdel Aziz bin Baz).<sup>20</sup>

In the wake of the Iraqi invasion of Kuwait some Saudi women openly challenged the restrictions imposed upon them in a driving demonstration.<sup>21</sup> While this open confrontation still represents an isolated case, many women seem to have reasserted their identity and become more involved in religious activities. Any changes in the role of Saudi women, their participation in public life and employment opportunities are determined by religious and cultural boundaries. Particularly in times of crises when the credibility and Islamic legitimacy of the House of Saud is challenged, the strict separation

of women and their invisibility in public serves as an outward symbol of the monarchy's piety, buttressing the regime's claim to be the 'true preservers of the faith'. Eleanor Doumato has expressed it in the following words:

Over the past thirty years, the ideology of the 'ideal Islamic woman' has proven to be a dependable vehicle for the Saudi monarchy to play out the myths of national identity which underpin its legitimacy. By promoting the imagery of the ideal Islamic woman, by controlling women's mobility and independent access to the resources of the state, and by enforcing women's public separation from men, the heterogeneous people of Arabia become a homogeneous Islamic community, the patriarchal family is sustained, and the Al-Sa'ud gain the appearance of the nation's guardian. The political utility of the ideal Islamic woman is most vividly highlighted during times of political instability: the state's responses to the mosque seizure of 1979 and to the women's driving demonstration of 1990 are two cases in point (Doumato, 1992, p.41).

Although the number of women in higher education increased during the oil boom and some went abroad for their studies, the percentage of women in the total workforce remains very low.<sup>22</sup> Vocational training is still lacking for females and opportunities for higher education are limited to few subjects. While the deterioration of the economic situation and the country's Saudi-isation plans might open up more employment opportunities for women, pressures from the *ulama* and Islamic critics continue to determine the extent of women's participation. The Labour and Workmen Law,<sup>23</sup> which deals with women, adolescents and juveniles in one section, clearly states in Art. 160: "[t]he Ministry of Labor shall, by decision, designate the occupations and operations that are regarded as harmful to health...in no case may men and women commingle in the place of work or in the accessory facilities...".<sup>24</sup> Thus many subjects at university are closed to women and employment is limited to teaching and medical professions or to opening up their own businesses. During the oil era a shift in the kind of work for female Saudis occurred. As a result of the overall economic prosperity and presence of cheap foreign labour, the social and economic value of traditional household work, such as employment as domestic servants or agricultural workers and the sale of home produce, declined. The type of employment open to women today is largely concentrated in those areas where a relatively high level of education is required. With female higher education still strongly related to the socio-economic status of a family, this process has left out not only many lower class Saudi women, but also many upper

class Saudis who feel little economic incentive to seek work (Alsuwaigh, 1989, p.76). In the last decades the number of female graduates has risen dramatically, once graduated many are “completely drowned in boredom” and hopes to make use of their education are often elusive (SG, 26 January 1988, p.3). The Saudi-isation plans, designed to reduce the overall size of the foreign workforce, envisage a greater role for women in the labour market and plan to accommodate the increasing number of highly qualified women graduates. The Fifth Development Plan speaks of the necessity to “increase the pool of economically active Saudi nationals by opening the doors to a larger participation of Saudi women in the labour force” (Fifth Development Plan, 1990-95, p.23). In 1986 the Civil Service Bureau launched a new initiative to utilise the services of unemployed women on a part-time basis (SG, 7 November 1986, p.3) yet progress remains limited. During the Third Development Plan the total number of women in the labour force increased at an average annual rate of 1.5 per cent (Fourth Development Plan, 1985). The participation of women in the workforce did not reach more than 5.3 per cent (men 54.4 per cent) in the period between 1989/1990 and the Fifth Development Plan anticipated an increase to 6 per cent by the end of 1995 (Fifth Development Plan, 1990, p.29). Jobs remain limited to a few sectors and, except for Aramco, women have to be completely separated from their male colleagues. Illiteracy among females remains relatively high, the adult literacy rate in 1993 for women was only at 47.6 per cent (compared to the rate for men at 70.4 per cent), earned income share for women was 7.5 per cent compared to 92.5 per cent for men. In 1996 the UNDP Human Development Report listed Saudi Arabia on rank 85 in its gender related development index (its real GDP per capita rank was 32) (Human Development Report UNDP, 1996, p.138).

Even modest steps to encourage the participation of women in the job market frequently meet the resistance of the *ulama*.<sup>25</sup> Women’s activities are also restricted in other areas. In February 1994 for instance, the religious police issued a closure order to clubs and hotels which run women-only gymnasiums and pools (APS, 5/12 February 1994, p.15). Apart from teaching and medical professions women can work in the administration, planning or management of charitable organisations involving, for example, projects for the disadvantaged. The Labour and Workmen Law stipulates in Article 170 that: “[b]y way of exception, the provisions prohibiting or restricting the employment of adolescents, juveniles and women shall not apply to charitable or official institutions of

vocational or professional training...". In 1988 there were 19 women's associations in Saudi Arabia with over 3000 members (Fakhro, 1996, p.261) among them many female royal family members. Nevertheless their work also sometimes becomes the target of criticism by Islamic activists, like in the case of the al-Nahda organisation in Riyadh, whose activities were labelled as un-Islamic and its members as prostitutes. These accusations prompted for the first time an open response and warning by a member of the royal family, Prince Turki bin Faisal, head of the Saudi intelligence services. He cautioned the accusers and admonished them to stop their attacks on the al-Nahda society and the royal family (APS, 30 December 1991, p.15).

Many Saudi women hold substantial financial assets. In the mid 1980s, for instance, it was estimated that more than 40 per cent of the total private wealth of the Kingdom is held by women (Al-Munajjed, 1997, p.91).<sup>26</sup> A number of women have opened their own businesses, most of them businesses that cater solely for other women. Since 1980 banks have opened exclusively for women clients, which enables women to handle their own financial affairs and increases their financial independence. Saudi businesswomen are becoming increasingly assertive and have demanded the inclusion into the Chambers of Commerce. The Fifth Development Plan includes talk of a feasibility study of opening a women's section of the Chambers of Commerce (Fifth Development Plan, 1990, p.37). In 1987 when the Jeddah Friends of the Chamber was established, around fifty women attended the first meeting in a separate room (Okruhlik, 1992, p.116). In 1998 it was estimated that 15,000 commercial establishments were owned by women and that the Chamber of Commerce included more than 5,000 women members (SG, 25 October 1998).

With lower incomes and fewer job opportunities for men an increasing number of women are forced to work in order to complement the family's income. In an article appearing in the Saudi Gazette entitled "Women Working in Desperation", the author argued that many of the women seeking employment do so as a result of dire need, for them employment is a matter of survival and new hope. These women are "victims of cruelty and neglect by men who as husbands or fathers failed in their obligation to look after their wives and children".<sup>27</sup> The appearance of the article is quite interesting as usually references to poverty among Saudis are conspicuously absent in Saudi newspapers. Often these women, if not well educated, are forced to accept menial work or in charity

organisations. The lack of public transport for women is a serious inhibiting factor for them in taking up employment. The forced segregation of half of the population necessitates the employment of chauffeurs or servants to do simple household chores, affordable to only a small proportion of the population.

The acceptance among Saudis of the participation of women in the job market seems to increase in case economic pressures necessitate it. According to a survey of 1978, in regions with a high proportion of education and high level of development, the general acceptance of women to enter the workforce is highest. The majority (57 per cent) of the total of Saudi household respondents approved of females working, acceptance was lowest in the Northern region (30 per cent) and highest in the Eastern Province (68 per cent). In general, approval is made on a conditional basis. Interesting for the present study is that the survey result showed that tolerance increases if there is an economic necessity for women to work, 44 per cent of household respondents indicated that under conditions of economic difficulties women could work, 12 per cent that they could work if they were single, widowed or with no close male relative, only 5 per cent of the respondents made their acceptance unconditional (Seralgeldin, 1984, pp.95-96). During the Kuwait crisis the government authorised and encouraged the employment of female volunteers in the medical field. Hundreds of female volunteers took the opportunity and registered, the Director General of Health Affairs in the Eastern Province, Dr. Sami Al-Seghair, stated: "[t]he flow of female volunteers is continuing, in genuine demonstration of the patriotism of Saudi women and their preparedness to serve their homeland in time of need" (SG, 25 September 1990, p.3). At the beginning of December 1990 'Arab News' published the results of an opinion poll regarding the participation of Saudi women in the war effort. 59 per cent of those asked, saw an increased role for women in the event of war and 61 per cent believed that women could cope on their own in case men were at the front (APS, 12 December 1990, p.15). Many women hoped that their efforts and participation would translate into an opening of further employment opportunities after the war, hopes that did not materialise. The issue of female volunteers caused angry reactions among some members of the religious sector. One clandestine broadcast alleged that:

the regime of the Betrayer of the Two Holy Mosques... called on the women and youth of our country to volunteer in the Armed Forces... Does King Fahd believe that the Hejaz and Najd woman is ready to



volunteer in our armed forces to support the soldiers of the invading US Zionist soldier who is occupying our country? Does he believe that our honour is so trivial to us that we will allow our daughters to stand next to Zionists and US soldiers - pork eaters, sinners and AIDS victims... (Doumato, 1991, p.37).

On 6 November 1990 several Saudi women expressed, for the first time openly, their discontent with the restrictions imposed on them. Approximately 50, mostly professional, women from prominent Saudi families decided to defy the discriminatory policy banning them from driving, they dismissed their chauffeurs and drove through Riyadh in their cars. Prior to the demonstration they had sent telegrams to senior Saudi officials, including the Governor of Riyadh, Prince Salman, explaining that their actions are for the good of the country.<sup>28</sup> Their demonstration was soon halted by members of the Committee for the Encouragement of Virtue and the Prohibition of Vice, the women were taken into custody but later released after legal experts had established that the women did not violate any civil laws. The husbands reportedly had to sign statements that their wives would not attempt to drive again (APS, 6 November 1990, pp.19-20). As Mordechai Abir described it, “[a]lready agitated by the American presence in Saudi Arabia, its cultural impact and the liberals’ growing audacity, the orthodoxy treated the women’s demonstration as a *casus belli*” (Abir, 1993, p.179). After strong protests and criticism by some religious leaders the government dismissed the women from their jobs and reportedly did not permit them to travel abroad for a year. A *fatwa* “not permitting women to drive cars and the necessity to punish the violators with suitable punishment that goes a long way in protecting the sanctity and preventing the causes for the degradation of woman” was issued by the Supreme Council of Senior Ulama making the customary ban official (SG, 14 November 1990, p.1). Prince Naif, Minister of Interior, declared that any demonstrations “even for demands and rights would be rejected as unnecessary acts as long as the doors of officials are open for discussion” (SG, 16 November 1990, p.1). Two days later King Fahd, in an address to the local media, announced that a *shura* council would be appointed shortly (APS, 8 November 1990).

The severity of the government’s response seems to be disproportionate to the women’s actual infraction. Eleanor Doumato suggested that the Interior Ministry’s response to the demonstration shows that the women’s demonstration was regarded not only as a question of women’s rights but also as a question of internal political stability. As the attendance of men in the mosque can no longer be enforced and smoking and other

'minor vices' can no longer be prohibited, women have become the ideal victims of the government's need to enforce strict Wahhabi standards and morality in order to uphold its claim to be the 'true preservers of the faith' and morality (Doumato, 1992, p.32). The women's demonstration and the reactions to it also highlighted the tensions permeating Saudi society between the more liberal and conservative forces. While the more liberal Saudis wish for a greater role for women in public life and freedom of activity, many other women, especially young and often well educated women, have become more outwardly religious, a phenomenon that can also be witnessed in neighbouring countries like in Bahrain and Kuwait. They resent the moral corruption and Westernisation that is slowly penetrating Saudi society. Some even reprimand women that transgress the strict dress and behavioural codes and assume the function of 'female *mutaw'a*' (religious police) (Yamani, 1996b, p.279). They organise large gatherings and discussion or prayer groups within the universities. The religiosity and assertion of their Islamic identity is different from that of the older generation, it is based on a conscious awareness and understanding of the *shari'a* and the position of women within it. As Mai Yamani described it, "[b]y going back to the basics of the shari'a they seem to derive a liberating force. They are creating a forum with a cultural context or idiom with which they are able to negotiate power. Since the 1980s religion has become the platform on which the power game is played" (Yamani, 1996b, p.278).

It remains to be seen to what extent economic necessities can create further opportunities for women to participate in public life. Under attack from Islamic critics, the government often feels pressurised to restrict the freedom of women. Those criticisms, discussed in the next chapter, have gained in vociferity since the Kuwait crisis. The Basic Law, described below, does not specifically mention women's rights and only refers to them in the chapter on family issues, thus, as Mai Yamani has observed: "in the higher political sphere, women remain outside the horizon for the search for wider participation, whether by the government or the oppositional Islamic force" (Yamani, 1996b, p.269). Remarks at the beginning of 1999 by Crown Prince Abdullah regarding a greater role of women in society were followed by an official statement emphasising that interpretations went too far and that he did not call for a liberalisation since there is no need of a liberalisation of policies concerning women because they are not restrained.<sup>29</sup>

### **‘Politics by Petition’ - Manifestations of Discontent**

The above sections have demonstrated that the pressures and the discontent with the government intensified in the wake of the Kuwait crisis. At the end of 1990 the demands for political reforms culminated in what Saad Idin Ibrahim termed ‘politics by petition’ (Ibrahim, 1993), both the liberal new middle class and religious groups presented their demands through petitions addressed to the king. To receive as much publicity as possible, the signatories also sent them to the press. The petitions were very careful not to oppose the regime *per se* and professed their loyalty to the House of Saud. Rather than criticising the government for what it does, the dissenting voices focused on issues of the government’s incompetence or corruption and demanded good government, Jill Crystal termed this the ‘strategy of apolitical opposition’ (Crystal, 1996, p.275). Both petitions converged in their demands by calling for a more accountable government, the rule of law, participation of the population and an end to the government’s arbitrariness and waste of the country’s wealth. In other issues a clear schism between the two camps is evident, particularly regarding women’s participation in public life, freedom of expression and the economic system. Their visions of reform vary significantly, while the ‘liberals’ demanded equal rights and more employment opportunities for women as well as a free press, the ‘Islamic’ petition called for a more active role of religion in all aspects of governmental activities and clearly reflected their view that freedom of expression should be understood within the limits of the *shari’a*. As far as the economic system is concerned, they called for an end of un-Islamic practices.

In December 1990 43 moderate liberal businessmen and intellectuals wrote an open letter to King Fahd asking for political and social changes. Underlining their support to the monarchy, they emphasised that it was “the bounden duty of every citizen to give advice to the rulers...and to participate with them by the word and deed in everything that he believes is for the good of the country, which belongs to all” (Gause, 1994, p.94). Their letter called for the establishment of national, provincial and municipal consultative councils with the power to develop and approve policies related to all aspects of governmental activities and “the acceleration of the process of establishing a government system and a permanent constitution for the country... to be submitted to the people for revisions and approval in a general referendum” (Article XIX, 1991, p.51). Such a constitution should enshrine basic human rights, equality before the law regardless of race, tribe, gender or social status. The signatories stressed the importance

of the *shari'a* as a basis of law and highlighted the importance of an independent judiciary asking to “differentiate in [their] lives, in a decisive and practical way, between the dictates of the shariah and the views and human interpretations of the ulama, which should be subject to assessment, evaluation, discussion, and response without limit or restriction” (Gause, 1994, p.95). They also called for limiting the activities of the Committee for the Propagation of Virtue and the Prohibition of Vice, an easing of the strict press censorship, a change for the role of women in society and the permission to form professional syndicates. The petition implicitly criticised the meddling of members of the ruling family in administrative and judicial proceedings, demanding that the royal family should not become “a means by which rules and regulations are rendered meaningless and superseded” (Gause, 1994, p.96).

The second petition was submitted to King Fahd on 19 May 1991 by Sheikh Ibn Baz, the Chairman of the Senior Council of Ulama. To some extent this open letter can be regarded as a reaction to the liberals’ petition and may reflect a fear on part of the religious camp that the pressure for reforms from the liberal constituency could marginalise their position. The petition was signed by more than 400 university professors and members of the *ulama*, among them over 50 leading ‘establishment’ *ulama*, and distributed throughout the Kingdom and the international media. Referring to “this critical period in which all people have realized the dire need for change” (Gause, 1994, p.96), they demanded the ruler in a more straightforward and less accommodating tone to take several reforms into consideration. Many of their demands focused on legal issues, like the unification of the judicial system<sup>30</sup> and the establishment of an independent commission ensuring that laws do not conflict with the *shari'a*. Furthermore they demanded:

- “The creation of a Consultative Council [with] complete independence, without pressure of any kind that might affect or influence the Council’s real and actual responsibility...” and with actual power to determine the domestic and foreign policies of the country. The members of the council should be known for their sincerity and upright behaviour and should have total independence.

- The development of a foreign policy that protects the interests of the *ummah* and avoids alliances that violate the *shari'a*.

- "The spreading of education and awareness through truthful news, and constructive criticism, such freedom being subject to shari'a rules of conduct and discipline".

- The guarantee of rights of the individual and society, eliminating all traces of harassment of the people's will and their rights in order to assure human dignity within the limitations of the *shari'a*.

Concerning economic issues they demanded the elimination of all political, administrative and economic laws and regulations that contradict the *shari'a* and a stricter enforcement against the charging of interest. In its demands for equitable and just distribution of wealth the Islamic petition was much more explicit and outspoken than the liberal petition. The Islamic petition called for the realisation of justice and equality among all members of society, a just distribution of national wealth among all social classes, the conservation of the nation's resources from waste and exploitation and "[t]he purging of all government establishments of those who are indicted of corruption or inefficiency, irrespective of any consideration... the observation of justice in allocating public funds amongst all the classes and factions of the society".<sup>31</sup>

Some of the signatories wrote another letter in July 1992, the so-called 'Memorandum of Advice' (*nasiha*), this time addressed to Sheikh Ibn Baz. It contained similar demands but a much stronger criticisms of government policies which will be discussed in Chapter 6.

## THE GOVERNMENT'S RESPONSE - AN INCLUSIONARY OR EXCLUSIONARY APPROACH?

It is the nature of the Saudi polity, with its preservative ideology, to view change not as a way to transform society but as a means for preserving an already 'perfect' society in the midst of an evolving environment (MacMillan, 1992, p.71).

Confronted with the demands voiced in the petitions and the discontent among wide sections of the population, the House of Saud is facing what Augustus Norton called 'the challenge of inclusion' (Norton, 1995, p.2). Its main dilemma is how to accommodate popular demands without relinquishing too much power and its unconstrained access to oil income, and without encouraging the establishment of a political alternative to its rule. It is an act of balancing the different constituencies' interests, for instance, the royal family on the one hand and the more liberal and Islamic segments on the other hand. Accommodating to the demands of one constituency might aggravate the alienation and marginalisation of the others and thereby could unleash unforeseen consequences for the cohesion of society. This makes the mediating role of the government and the existence of outlets for political discourse all the more crucial. The following section will analyse the reforms of the Saudi government and will try to evaluate to what extent the measures represent a response to the petitions and demands of the populace and which constituency or group the government tries to accommodate most with its reforms.

On 1 March 1992 King Fahd issued three decrees introducing the establishment of a Basic Law, the formation of a Consultative Council (*majlis al-shura*) and regulations covering municipal administration with the introduction of regional assemblies. These reforms, based on Faisal's ten-point programme of 1962, had been promised on several occasions, particularly in politically difficult times and the building for the *majlis* was already completed in 1984 yet the implementation of the reform programme was frozen once tensions subsided again.<sup>32</sup> On 20 August 1993 King Fahd issued four other decrees appointing the members of the Consultative Council, providing its operational guidelines and carrying an amendment of the Charter of the Council of Ministers. He introduced the reforms as follows: "[t]he country has recently witnessed tremendous developments in various fields. These developments have called for a renewal of the general

administrative system in the country". Emphasising continuity, the "three statutes are to strengthen something that exists and to formulate something which is already in operation. These statutes will be subject to rectification and development according to the requirements of the Kingdom's circumstances and interests...".<sup>33</sup> This statement already indicates that the reforms were primarily aimed at enhancing the performance of the administrative system and did not entail the inclusion and representation of the population in the decision-making process.

### **The Basic Law**

Until the promulgation of the Basic Law Saudi Arabia had no written constitution. The Basic Law itself does not represent a formal constitution, a place only the *shari'a* can take, which the first article clearly stresses: "[t]he Kingdom of Saudi Arabia is a sovereign Arab Islamic state with Islam as its religion; God's Book and the Sunnah of his Prophet, God's prayers and peace be upon him, are its constitution".<sup>34</sup> It stipulates that the system of government is a monarchy (Art. 5a) and that "[c]itizens are to pay allegiance to the king in accordance with the Holy Quran and the traditions of the Prophet, in submission and obedience, in times of ease and difficulty, fortune and adversity" (Article 6). Article 7 further asserts that the government draws its authority from the *shari'a*, which governs all aspects of state activities. The state's proclaimed function is, according to Article 23, "to protect the principles of Islam, enforce its shariah, ordain what is good and forbid what is evil and undertake the duty of the call to God".

The Basic Law grants a wide range of powers to the monarch and emphasises the importance of the king, who continues to hold both executive and legislative functions and is the final authority for all governmental institutions. As head of the Council of Ministers and Prime Minister he can appoint and dismiss members of the Council of Ministers and the *majlis al-shura*. He is also in charge of the armed forces (Art.60), has the power to declare a state of emergency and war (Art.61), is responsible for the implementation of judicial rulings and disposes over the power of pardon.

The Basic Law codifies for the first time the process of succession,<sup>35</sup> from now on an electoral college of the sons and the approximately 500 grandsons of Abdul Aziz would

have to choose a heir: "... the Rule passes to the sons of the founding King, Abd al-Aziz al-Rahman al-Faysal Al-Saud... and to their children's children. The most upright among them is to receive allegiance in accordance with the principles of the Holy Koran and the Tradition of the Venerable Prophet" (Art.5). It points out that the late king's choice of his heir can be considered invalid if that chosen person cannot gain the support of the sons and grandsons of King Abdul Aziz, to whom rule seems to be collectively handed down. Interestingly the *ulama's* endorsement and approval of the successor to the throne is not mentioned in the Basic Law, indicating a move away from the traditional religio-political partnership (Aba-Namay, 1993). The new constitution also allows the king to dismiss the Crown Prince (Art.5b). Simultaneously to the proclamation of the Basic Law, most likely to pre-empt speculations about King Fahd's successor, a Royal decree was issued confirming Abdullah in his position as Crown Prince.

As far as public accountability is concerned, Article 73 prohibits the spending of public money, except if covered in the budget or through Royal decree, Article 16 states that "[p]ublic money is sacrosanct. The state has an obligation to protect it and both citizens and residents are to safeguard it". Articles 79 and 80 provide for the establishment of supervisory institutions for the treasury and other governmental institutions. These provisions seem to reflect a concern for the demands put forward in the petitions, yet all the provisions can be amended by Royal decree. Economic Principles are laid out in Chapter Four of the Basic Law. Article 21 states: "[a]lms tax (*zakat*) is to be levied and paid to legitimate recipients", thus the collection of *zakat* is in the hands of the authorities. It also mentions the possibility of raising taxes: "[t]axes and fees are to be imposed on a basis of justice and only when the need for them arises. Imposition, amendment, revocation and exemption is only permitted by law" (Art. 20).

The Basic Law contains provisions for the independence of the judiciary, Article 46 stipulates that: "[t]he judiciary is an independent authority. There is no control over judges in the dispensation of their judgements except in the case of the Islamic Shari'ah". Article 51 establishes a Higher Council of Justice responsible for judging the consistency of laws with Islamic Law. However, judges are appointed by Royal decree by a proposal from the Higher Council of Justice (Art.52), assuring the control of the king in the selection of judges. The Basic Law also includes selected constitutional rights for Saudi citizens, the "state protects human rights in accordance with the



shariah" (Art.26). It guarantees freedom from arbitrary arrest and search and punishment without due legal process (Art.36 and 38). It protects the sacrosanctity of the home (Art.37), perhaps a response to the growing complaints about forceful intrusions into private homes by the Committee for the Propagation of Virtue and the Prohibition of Vice. Nevertheless, there are no clear provisions as to how the individual can enforce his/her rights in front of the state. The ultimate recourse of the citizens is the appeal to the king: "[t]he King's court and that of the Crown Prince shall be open to all citizens and to anyone who has a complaint or a plea against an injustice. Every individual shall have the right to address the public authorities in all matters affecting him" (Art.43). The margins of political space remain the same,<sup>36</sup> there is no right of expression, no right to be freely informed, no freedom of association or assembly or the right to form a political party. The press and media remain under the strict control of the government as "[f]reedom of expression for the media is guaranteed in accordance with the national aims and Islamic tradition" (Art.27). As mentioned above, nowhere in the Basic Law are the rights of women specifically laid out.

In Article 68 the Basic Law also refers to the creation of a Consultative Council (*majlis al-shura*). Containing a total of 83 articles, the positioning of the establishment of the *majlis al-shura* at the end might give an indication of the (in-)significance attributed to the role of the new institution.

### **The Consultative Council (*Majlis al-Shura*)**

And following (the tradition of) the Prophet of God, may the prayers and blessings of God be upon Him, in consulting his companions, and in inciting the ummah to engage in consultations, the Shura Council is created, and it exercises the tasks entrusted to it in accordance with this Statute and the Basic Law of Government, with commitment to the Book of God and the tradition of His Prophet, and maintaining the ties of brotherhood and co-operation in kindness and piety (Art.1).<sup>37</sup>

The principal role of the Consultative Council is to advise the Council of Ministers and the king and to express opinions on the general policies of the state which are referred to it by the president of the Council of Ministers, currently the king (Art.15). Additionally it can suggest legislation, interpret law and review all foreign and domestic

agreements and policies, previously the sole preserve of the king and senior royal family members. All legislative proposals must be backed by at least ten members and recommendations will only be accepted if they concur with those of the Council of Ministers. For decisions under its jurisdiction the Council of Ministers is accountable to the Consultative Council and in case of disagreement the king is the arbiter. According to Article 18 all decisions will be issued by Royal decree implicitly meaning that the *majlis* cannot issue decisions directly, thus it completely lacks legislative powers. The decree establishing the Consultative Council stipulates that it should consist of a chairman and sixty members appointed by the king from “scholars and men of knowledge and expertise” (Art.3) with a four year term of office. The king has the right to dissolve the *majlis* at any time and to appoint a new one.

The *majlis* also functions as mediator between government authorities and the population. Since 1995, with the creation of a Committee of Petitions, the *majlis* receives petitions, complaints and suggestions from the general populace. In its first session it reportedly received over 300 such petitions which led to the revision of laws and new proposals for legislation. In case the Committee cannot act on a particular issue it forwards the complaints to the respective ministries (Dekmejian, 1998, p. 207). The Committee seems, however, not widely known among Saudi citizens.<sup>38</sup>

Abdullah Nassef, the Council’s vice-chairman, described the role of the council as non-political: “[i]t’s a question of improving the country’s performance, not a question of power” (FT, 29 December 1994). It is difficult to assess the influence of the Consultative Council on the process of policy making as all sessions are private and members of the Council are not permitted to discuss the debates in public. Since its creation the Consultative Council has almost disappeared from public attention yet its influence can *inter alia* be seen in the 1995 budget. Prior to the announcement of the budget, the Council was reported to have been reviewing fees and service charges and to have discussed it with the Minister of Finance and Economy. The budget was later amended in accordance with the review of the Council’s proposals (EIU, 1995, 1<sup>st</sup> Quarter). The deputy Minister of Commerce assessed the performance of the *majlis* as follows, “[w]hatever comes out of the Shura is generally more realistic than what we have done before...Laws used to be passed from one bureaucrat to another, and these people have no experience of the outside world. It’s a tremendous advance” (FT, 29

December 1994). Furthermore the Council has studied international agreements, drafted several laws on intellectual property rights, environmental protection, etc., which, according to Abdullah Nassef, were all adopted by the Cabinet. Government institutions are now subject to the scrutiny of the Council, which has the power to question members of the Council of Ministers, including members of the royal family. This is quite an important innovation, yet it is not clear to what extent this provision has been translated into practice. Considering its advisory function relating to economic issues, the *majlis* could also serve as a convenient organ with whom to 'share the blame' in case of unpopular economic reforms and austerity measures.

The reforms seem to respond more to the demands of the liberal constituency, many of their moderate demands have been addressed. Curtailing the power of the religious police and avoiding some of the issues mentioned in the Islamic petitions gives the impression that the government meant to limit the powers of the religious constituency in order to placate the liberal constituency (Aba-Namay, 1995, p.81). However, in its choice for the post of Chairman of the Council the government has been careful to accommodate to the Islamic constituency and appointed an *alim*, the ex-justice minister, to the post. The nominations for the first *majlis al-shura* and for the second *majlis* reflect the incorporation of a cross section of the Saudi élite. Most of the members appointed are professional men, approximately a third are university professors, with around 20 per cent of the total the religious conservatives and tribal constituencies are less well represented. As far as regional composition is concerned, around 40 per cent of the members come from the Najd region, including members from the small conservative towns, approximately 30 per cent are from the Hijaz and only 4 per cent from the Asir region.<sup>39</sup> Almost 60 per cent of the *majlis* members hold a Ph.D. degree, almost all have a university education, 68 per cent from Western institutions. For Saudi standards the average age of the members at around 50 years is relatively young, perhaps an indication that the government is trying to bring in the younger generation (Dekmejian, 1998, pp.212 and Fandy, 1999, p.40). Only one member of the first *majlis* represented the Shi'a minority. A close scrutiny of the members, Dekmejian argues: "shows a carefully crafted strategy of inclusion aimed at strengthening the political foundations of Saudi legitimacy" (Dekmejian, 1998, p.208). This is particularly evident in the selection of candidates for the new 1997 *majlis* for which the membership was expanded to 90.<sup>40</sup> There seems to be a conscious move to co-opt many moderate

potential dissenters and former critics of the government, some of which have been imprisoned for their opposition to the government in the early 1990s. They include Zayd 'Abd Al-Muhsin Al-Husayn, Mani' Al-Juhani and Ahmad Al-Tuwayjiri arrested in 1993 for leading an activist Salafi group at the King Sa'ud University.<sup>41</sup> In the new *majlis* the number of Shi'a members was augmented to 4, reflecting the will to continue the policy of accommodation towards the Shi'a population, as will be described in the next chapter.<sup>42</sup>

On 20 August 1993 King Fahd announced the amendment of the charter of the Council of Ministers, limiting the terms of offices for cabinet ministers to four years with a maximum extension of another two years (Art.9).<sup>43</sup> He further declared that the functions of each of the cabinet ministers should be defined in writing. These changes are quite significant and affect all members of the Council of Ministers, including the brothers of King Fahd. The decree also stated that cabinet members would no longer be allowed to hold another governmental post (Art.5), to engage in business affairs with the state or to head a private company during their tenure and would be put on trial in case they commit infractions while performing their official duty.<sup>44</sup>

In August 1995 King Fahd changed fifteen cabinet posts and included many Western educated technocrats in the cabinet, declaring that "the economic and social changes in the kingdom made it necessary to give the new generation a chance" (APS, 2 August 1995, p.16). Hisham Nazar, the Minister of Petroleum, was replaced by Ali Nuaimi, former president of Saudi Aramco. The former Minister of Commerce, Sulaiman Ibn Abdel Aziz al-Suleim, a supporter of a greater role for the private sector, became the new Minister of Finance and Economy, an appointment that many observers regarded as an indication for the commitment to economic reform. Nevertheless, despite the substantial changes, the main cabinet posts, defence, interior and foreign affairs, remain concentrated in the hands of a few princes. The king occupies the position of Prime Minister and thereby is head of the Council of Ministers and the Interior Minister has overall responsibility for the regional councils.<sup>45</sup>

On 16 September 1993 King Fahd issued a Royal decree establishing a new provincial system of government.<sup>46</sup> According to Article 1, its objectives are: "aimed at improving the level of administrative work and development in the regions of the Kingdom. It is

also aimed at maintaining security and order, and at guaranteeing the rights and liberties of citizens in the framework of the Islamic Shari'ah". The decree divides the country into 13 regions which, in turn, are divided into governorates, districts and centres (Art.3). Each region is governed by an amir, appointed by the king and with the rank of minister (Art.4). They are directly accountable to the Ministry of Interior (Art.5), thus underlining the dominant role of the central authority of the Minister of Interior. The main responsibilities of the amir includes: the maintenance of security and order, the implementation of judicial orders and guaranteeing the rights and liberties of individuals (Art.7). Each of the regions has a Council of the Region representing its important citizens. The establishment of regional authorities and provincial councils takes the process of formal consultation from the national Consultative Council down to the regions. The functions of the assemblies, similar to those of the Consultative Council on the national level, will be to advise, to propose reforms to the amir and to discuss local issues, they can also decide on spending and development policies concerning the region. Greater autonomy is also given to the governors of the provinces in the area of development projects and public spending. Nevertheless, decisions always have to be approved by the Ministry of Interior, provisions regarding the distribution of power between the local and central authorities are vague, the king and the respective amir determine the power of the locality in relation to the centre (Aba-Namay, 1993, p. 60) and all 13 governors are members of the royal family.<sup>47</sup>

The reception of the reforms were very divergent, some authors considered them as an important but cautious first step towards greater popular participation in governmental affairs. John Bulloch, for example, talked of "far reaching reforms",<sup>48</sup> Mamoun Fandy suggested that the "council is likely to become the nucleus of a parliament, which members can use to push the government toward greater representation. Saudis claim that with this modest step they are ahead of many republican governments in the region" (Fandy, 1999, p.41). Rashed Aba-Namay argued that the reforms "marked the beginning of a new era in Saudi law and politics; and it may well break significant new ground in substantive Islamic constitutional legal terms" (Aba-Namay, 1993, p.82). However, the king himself has made it clear that the "three statutes are to strengthen something that exists and to formulate something which is already in operation" (Bulloch, 1992, p.33).

In 1993 Augustus Norton claimed that: “[t]ime-honored remedies are still plied - co-opting critics, bribing recalcitrants with privileged access to power and deals, locking up dissenters, and worse - but the scope of failure is so broad that few rulers today have pockets deep enough or jails large enough to cope with the problem in traditional ways” (Norton, 1993, p.206). Inclusion of the people would necessitate the introduction and implementation of reforms that open up outlets for the free expression of opinion, limit the arbitrary exercise of power and permit political associations. It seems that the Saudi government, eager to preserve the *status quo*, still resorts to old-fashioned tactics. The petitions described above have so far been expressed within limits and have clearly stressed their loyalty to the monarchy. While the demands of the liberal constituency of the society seem to have subsided after the introduction of the reforms, some members of the Islamic constituency have become more vociferous in their criticisms of the regime, increasingly challenging the religious legitimation of the regime and the establishment *ulama*.

## NOTES

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<sup>1</sup> Quote from Lacey, 1982, p.206.

<sup>2</sup> This does not imply that there is one clear 'path', the Saudi regime might decide (if it has not already done so) to use a policy of both, i.e. to gradually introduce reforms while co-opting and, if need be, increasing the repression of political dissenters.

<sup>3</sup> See for instance Cordesman, 1993; Piscatori, 1991; Abir, 1993.

<sup>4</sup> Distinguishing between the 'liberal' and the Islamic constituency does not mean that both groups represent polar opposites of society whose interests are mutually exclusive or that the middle class is solely 'liberal' in orientation, in the sense the term 'liberal' is used in the West. 'Liberal', in the context of this study, is understood to 'represent' those who are not associated with the royal family, the religious *ulama* or Islamic opposition and those who seem to support a more 'secular' Saudi polity. The distinction is a simplification, made here to show the two main currents in Saudi society. It should be noted that often members of the middle class actively or passively support the Islamic position. As will be discussed later on many of their demands overlap.

<sup>5</sup> As mentioned in Chapter 4, the transformation of the political awareness of those studying abroad does not necessarily mean that they become more Westernised, the reverse often being the case.

<sup>6</sup> For example, the Ministry of Interior used to keep a list of the businesses with copying machines for more detail see Article XIX, 1991, p.19.

<sup>7</sup> According to Fandy the religious police went as far as to fire their guns at the satellite dishes on the rooftops (Fandy, 1993, p.23).

<sup>8</sup> See also Chapter 1 for a brief debate on the impact of modernisation. More detailed discussions on the topic can be found for instance in Aldamer, 1995.

<sup>9</sup> Okruhlik observed that this intrusion can take several forms: For example the demand of commissions for contracts or forcing business competitors from the market, etc. (Okruhlik, 1992).

<sup>10</sup> Several interviewees confirmed this.

<sup>11</sup> Assessment based on personal interviews.

<sup>12</sup> See the C.A.C.S.A. Internet site: <http://www.saudhouse.com>.

<sup>13</sup> For further detail see Chapter 4 and Okruhlik, 1992 as well as Chaudhry, 1997.

<sup>14</sup> For example Graham and Wilson argued that the Gulf War "unleashed new social forces" (Graham and Wilson, 1994, p.4).

<sup>15</sup> For exceptions and reforms in other Gulf countries see, for instance, Gause, 1994.

<sup>16</sup> Throughout the crisis newspapers or magazines published in those countries critical of Saudi Arabia's position in the crisis were banned. The ban affected all Jordanian, Iraqi, Algerian, Sudanese papers as well as the voice of the Afghan Mujahidin 'al-Jihad'. In January 1991 the government also ordered that no reports be published on Iraq's missile attacks on Israel until 24 hours after. Saudis thus turned to other country's broadcasts and the number of satellite dishes skyrocketed (Article XIX, 1991, pp.48).

<sup>17</sup> The government frequently claims that it does not officially allow US troops to be based in the country. Many of the American, French and British operations are therefore often run through the cover of civilian corporations.

<sup>18</sup> Only approximately 81,000 Kuwaitis were eligible to vote. Women were not allowed to participate in the elections, however, a new law allows them to vote from the year 2003.

<sup>19</sup> In March 1993 after allegations of fraud at the Kuwait Investment Office in London, legal pursuits were commenced against prominent Kuwaitis among them were several members of the royal family.

<sup>20</sup> SP 502, APS Diplomat 26, Recorder Covering 8/15 June 1996 quote from religious weekly 'Al Muslimun'.

<sup>21</sup> Few serious studies of the situation of women in Saudi Arabia exist. There are a plethora of books focusing on the perceived oppression of women but there is a lack of thorough studies of their socio-economic and political position. The following section gives only an overview of the issues and dilemmas facing women in Saudi Arabia. It is based to some extent on personal interviews.

<sup>22</sup> For percentages of women's participation in the workforce see Chapter 4.

<sup>23</sup> Chapter X, pp.52, Kingdom of Saudi Arabia, Ministry of Finance and National Economy, introduced by Royal Decree No.M/26 15 Nov. 1969.

<sup>24</sup> The law also gives women extensive rights and protection in case of sickness and in case of maternity leave. The protection goes even so far as to demand that "[i]n all places and all occupations where women are employed, they shall be provided with seats to assure their comfort" (Art. 171).

<sup>25</sup> Attitudes regarding women's employment remain very conservative, women's centre of activity is seen in the home. Prince Nawaf Bin Abdul Aziz, for example, wrote in an article entitled the 'Graduate girls' dilemma': "[t]he graduate girl who works to establish her home and small family is worthy to her society and country... Therefore the university graduate girl who works outside her home and family, and taking more interest in her work than her home is unworthy of the work she is practising because she has not proven worth for her home and family... a university graduate must... attempt to surmount the psychological conditions in which she finds herself after completing her university education and we shall assist her to overcome this..." (SG, 29 January 1987, p.3). It also seems to be an attitude many Saudi women share, their attitudes "towards female problems, unlike those of their counterparts in other Arab countries who are blindly aping Western women and clamouring about women rights and emancipation are quite reserved and except for a few issues they tend to be of personal nature" (Nada Mohammad Ba Abbad in an article in the Saudi Gazette entitled "Woes of educated girls - loneliness and boredom beyond endurance", SG, 26 January 1988, p.3).

<sup>26</sup> See also MIDDLE EAST EXECUTIVE REPORTS, Vol.15, no.5, 1982, p.22.

<sup>27</sup> Saudi Gazette, 29 January 1988, p. 3 by Maudha Al-Zahrani. This article appeared in a series of articles called 'City Talk' that takes up issues like women issues and employment opportunities.

<sup>28</sup> APS Diplomat 21, Recorder Covering 3/10 November 1990, p. 19 see also Doumato, 1992.

<sup>29</sup> See SWB, 7 May 1999, ME 3528 MED/5 from Saudi Press Agency (5 May).

<sup>30</sup> Currently there are *shari'a* courts and 'secular' courts that deal with commercial and administrative cases. See also Chapter 4.

<sup>31</sup> For a more detailed version of the demands see Dekmejian, 1994, p.630, also Article XIX, 1991 and Human Rights Watch, May, 1992.

<sup>32</sup> The reforms were also inspired by elements of the short-lived Consultative Council of Hijaz and the Fundamental Instructions of the Kingdom of Hijaz for more details see Aba-Namay, 1993, p.44.

<sup>33</sup> For full text of King Fahd's speech see Appendix One of Bulloch, 1992.

<sup>34</sup> The full text of the Basic Law is available under: [http://www.rrz.uni-hamburg.de/la/SA00001\\_html](http://www.rrz.uni-hamburg.de/la/SA00001_html), see also Appendixes in Bulloch, 1992.

<sup>35</sup> Previously succession to the throne occurred according to an informal order of seniority among the sons of King Abdul-Aziz and was approved by the royal family and endorsed by the *ulama*.

<sup>36</sup> For a discussion of the margins of political space and the punishments for those who transgress it see beginning of Chapter 6

<sup>37</sup> For full text of Decree Establishing the Consultative Council see Bulloch, 1992, Appendix 3.

<sup>38</sup> Most Saudis asked in personal interviews about the existence and functions of the Committee did not know about it.

<sup>39</sup> The population distribution is as follows: 35 per cent of Saudis live in the Hijaz, 16 per cent in Asir, 25 per cent in the Najd, 12 per cent in the Northern region and 13 per cent in Al-Hasa (EIU Country Profile, 1999-2000, p.14).

<sup>40</sup> The composition of the first and the second *majlis* are very similar. As far as the occupational background is concerned around 40 per cent are academics, followed by businessmen and diplomats, only around 20 per cent of the members come from religious universities, some of them are high ranking *ulama*. Around 35 per cent of the *majlis* members have a tribal background, yet no tribal leaders are included. The inclusion of the tribal leaders in the consultation process is assured through different channels (various articles by Dekmejian). For the composition of the first *majlis* with a list of all members and their education background see [http://imedl.saudi.net/gov\\_profile/consult.htm](http://imedl.saudi.net/gov_profile/consult.htm)

<sup>41</sup> Dekmejian, 1998, pp. 212, from 'Al-Quds al-'Arabi', 8 July 1997, p.1.

<sup>42</sup> Dekmejian argued that despite claims of 4 Shi'a members, he could only identify two Shi'a members of the *majlis* (Dekmejian, 1998).

<sup>43</sup> Previously a Royal decree of 1956 implicitly permitted cabinet ministers, particularly those belonging to the royal family, to assume almost unlimited powers and to hold their position for decades. APS of 9 May 1994 gives a description of the members of the Council of Ministers.

<sup>44</sup> For full text of statute see [http://www.rrz.uni-hamburg.de/law/sa06001\\_html](http://www.rrz.uni-hamburg.de/law/sa06001_html)

<sup>45</sup> At the beginning of 1999 the following ministries were held by royals:

- Ministry of Interior: Nayef bin Abdul-Aziz Al-Saud
- Ministry of Foreign Affairs: Saud al-Faisal Al-Saud
- Ministry of Defence and Aviation: Sultan bin Abdul-Aziz Al-Saud
- Ministry of Public Works and Housing: Moutib bin Abdul-Aziz Al-Saud



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<sup>46</sup> Previously the provincial system was regulated by the Regulations of the Provincial Governors and Administrative Councils (1939) and the Provincial Regulations (1963) however the provisions contained in these regulations were rarely used as guidelines. For more details about the provincial system prior to the promulgation of the new statute see Aba-Namay, 1993.

<sup>47</sup> After the introduction of the new decree the following persons were holding the position of amir: Prince Salman Ibn Abdel Aziz (Riyadh), Prince Majed Ibn Abdel Aziz (acting Emir: Prince Saud Ibn Abdel Aziz) (Mecca), Prince Abdel Majeed Ibn Abdel Aziz (Medina), Prince Faisal Ibn Bandar Ibn Abdel Aziz (Qassim), Prince Mohammed Ibn Fahd (Eastern Province, Khaled Al-Faisal (Asir), Prince Fahd Ibn Sultan Ibn Abdel Aziz (Tabuk), Prince Miqren Ibn Abdel Aziz (Hail), Prince Adullah Ibn Abdel Aziz Ibn Musa'ed Ibn Jiluwi (North Border), Prince Mohammed Ibn Turki Al-Sudairi (Jizan), Prince Fahd Ibn Khalid Al-Sudairi (Najran), Prince Mohammed Ibn Saud Ibn Abdul Aziz (Baha), Prince Sultan Ibn Abdel Rahman Al-Sudairi (Jouf) (APS, 9 May 1994, p.10).

<sup>48</sup> Bulloch gives a detailed account of the reactions to the reforms of various academics and officials (Bulloch, 1992).

## **Chapter Six**

### **FROM FISCAL CRISIS TO POLITICAL CRISIS ?**

If the perils of reform... invite anxiety, the dangers of clinging to the status quo are even more unsettling (Norton, 1995, p.2).

Throughout Saudi Arabia's history commentators have predicted the fall of the House of Saud, particularly in the 1960s and in the aftermath of the 1979 Mecca insurrection many articles analysed the potential for instability and overthrow of the monarchy.<sup>1</sup> However, so far the regime's resilience has been remarkable, with dissent marginal compared to neighbouring countries, and open confrontations limited to a few, often isolated, incidences. With the impact of the Kuwait crisis, the fiscal crisis and the ensuing economic recession discontent came to the forefront and hitherto quiescent groups have commenced to voice open criticism of the government. Reports of the fragility of the House of Saud resurfaced in the late 1980s and 1990s, as some observers commented "the threat of a fundamentalist take-over is a real one" (Graham and Wilson, 1994, p.5).

It has been argued in the conceptual framework that the existence of a viable alternative or counter hegemonic bloc will determine whether a particular regime can ultimately retain its hegemony during a fiscal crisis. Nazih Ayubi argued that a deterioration of the economic situation could "produce a political atmosphere similar to that of the 1950s and 1960s when smaller oil revenues - most of which were kept by the ruling élites - had created a situation within Arabia where dissident groups and attempted coups were recognised phenomena" (Ayubi, 1995, p.240). To avoid facile assumptions of the fragility of the regime, this chapter will examine the scope and pace of the pressures and challenges posed by the opposition groupings in the historical and institutional context of Saudi Arabia and with regard to regional and global events that have influenced, and sometimes determined, the history of dissent in the Arabian peninsula. For the purpose of this study it is of particular significance to analyse the scope of criticism of government policies regarding the economic situation as this will give an indication to what extent a continuing or worsening fiscal crisis may translate into a political crisis.

Special emphasis in the discussion of opposition groupings will therefore be attributed to the place economic issues take in the oppositional discourse and demands. Such an analysis will contribute to an understanding of the pressures on the government that could intensify in case of continuing low oil prices. It is also important in this context to look at the response of the government and its rhetoric in countering the charges of the opposition. The House of Saud relies heavily on the *ulama* in condemning the opposition, which is generally portrayed as a 'threat to Islam', rendering the Islamic legitimacy and the alliance with the *ulama* crucial to the maintenance of its hegemony.

Before dealing with the actual opposition movements in their historical context this chapter will begin with an examination of the margins of political expression within the Saudi context. It was noted in Chapter 1 that the rentier nature of the state tends to favour the emergence of Islamic opposition rather than secular or class-based opposition. In the absence of outlets for political expression and an active and viable civil society, Islam represents the primary ideological and organisational base from which the government can be challenged.<sup>2</sup> Currently the most vocal critics of the monarchy come from the Islamic constituency, while the demands and criticisms of the 'liberals' continue to be expressed in very cautious terms.

For a better understanding of the contemporary opposition, its demands, composition and social basis, the chapter will then proceed with a short overview of the history of political opposition. It will commence with the challenges posed by the rise of Pan-Arabist groups in the 1950s and 1960s and the responses of the regime to the challenges,<sup>3</sup> then proceed with an analysis of the 'challenge from within', i.e. the problems emanating from intra-family disputes and the question of succession, followed by a discussion of the challenges caused by the security apparatus and problems arising from the need to balance the threats to the security of the Kingdom from within and from outside.

The Saudi Shi'a community has occasionally expressed open, sometimes violent opposition fuelled by external forces, to the reign of the Al-Saud and to the discrimination and marginalisation of their community within the Saudi state. Often discrimination and particularly socio-economic marginalisation has been the underlying motivation for the opposition of the Shi'a community. This part of the chapter will

therefore concentrate on the socio-economic aspects of their discontent and the reaction of the authorities to it.<sup>4</sup> The next section focuses on the rise of political Islam in Saudi Arabia, the main source of opposition to the regime since the 1980s. It first looks at the historical background and social basis of the Islamic opposition, in particular the take-over of the Great Mosque in Mecca in 1979, then analyses the escalation of the Islamic opposition, its rationale, discourse and composition in the wake of the Kuwait crisis. The different tactics employed by the state to counter the Islamic challenge are dealt with in the final section of this chapter.

## **OPPOSITION MOVEMENTS IN HISTORICAL CONTEXT**

In the early years of the third Saudi state the main opposition to the rule of the Al-Saud came from rival tribes or family factions and in the 1920s from the rebellious Ikhwan forces, mentioned in Chapter 2. Opposition from a purely tribal basis has receded since the oil boom, mainly due to the state's policy of neutralising, integrating, co-opting and, if necessary, oppressing opposing tribes, to the widespread urbanisation and a waning influence of tribal leaders. However, this does not necessarily mean that elements of tribal or regional resentment do not play a part in the individual's motivation to oppose the Al-Saud regime.<sup>5</sup> Separatist movements particularly from the Hijaz or Asir continue to this day to occasionally oppose the rule of the Al-Saud. In 1994, for example, the 'National Front for the Liberation of Najran and Asir' was founded in Abha, calling on "men enamoured of peace and human rights organisations to support the sons of the Yemeni people in Najran and Asir in their just struggle for independence and liberation from the hegemony of the Al-Saud" (APS, 21 September 1994, p.14).<sup>6</sup> Many of these groupings, however, seem to lack wider popular support and tend to disintegrate before a more organised movement develops.

Before the oil boom and the infrastructural development of the country, the vast distances and the inaccessibility of many areas as well as the regional discrepancies inhibited the development of indigenous, nation-wide movements which would have been able to provide the organisational and ideological framework and which could mobilise a large enough following to pose a serious threat to the regime. In the 1950s and 1960s discontented citizens therefore turned outside for guidance and for financial

and organisational assistance, as will be seen below. Before discussing the influence of the Pan-Arab movement in Saudi Arabia, the next part will first look at the institutional and organisational context of political opposition and the margins of dissent in the Kingdom.

### **Margins of Dissent - Preparing the Way for 'Political Islam'**

They have forbidden the word, writing and speech !  
Be silent! And if injustice remains  
When the tongue is mute, it will burn like a moth in the flame.  
For opinion now is trash, secreted away and thrown in the bin.  
The word is a crime,  
Beware he who would start a debate!<sup>7</sup>

Speaking of opposition movements in the political context of Saudi Arabia is often an overestimation of the predominantly very fragmented movements whose influence often subsides while still in an embryonic stage. Little is known about the organisational structure of most movements, their actual existence on the ground or of the extent of support among the population. This is mainly due to the fact that overt opposition to the regime is severely repressed, with capital punishment, imprisonment, torture or deportation awaiting those who dare to openly oppose the hegemony of the Al-Saud. A Royal decree issued on 21 June 1956, for instance, stipulates that it constitutes a criminal act if three or more people agree to withdraw their labour. Anyone who participates or advocates a strike or demonstration shall be punished with not less than one year imprisonment, for inciting or trying to incite a strike with not less than three years.<sup>8</sup> A National Security Law from 1961 gives an indication of the penalties facing those who dare to criticise the government in public, that interfere in internal political affairs, instigate or participate in public protests, who join political parties, contact international political organisations or encourage the spread of anti-government propaganda. Punishments range from forced or semi-'voluntary' internal exile for those with ideas hostile to the government, to long-term imprisonment for joining political organisations and to capital punishment for attempts to overthrow the government.<sup>9</sup> Saudi Arabia has one of the highest rates of executions in both absolute numbers and per capita. Although capital punishment for political or religious reasons has been relatively rare, the scope of the death penalty has been expanded in recent years to a

wide range of offences.<sup>10</sup> In 1989 the Minister of Interior introduced Law 148, following a ruling of the Senior Council of Ulama, that prescribes the death penalty for violent acts perpetrated by prohibited political organisations. Shortly after the law was passed 16 Shi'a pilgrims were executed reportedly on the basis of the above mentioned law (Article XIX, 1991, p.5). Those Saudis suspected of political or religious activism frequently have to give written confirmation that they will refrain from any further criticism of the government before being released. Exiled dissidents that publicly renounce their opposition to the regime are often allowed back into the country, the most prominent case was Prince Talal, who was invited back to Saudi Arabia in 1964 after having been stripped of his citizenship. In 1996 Usama Bin Laden also claimed to have been offered the return of his Saudi passport and personal property as well as the return to the Kingdom in dignity, in return for publicly declaring that the king is a good Muslim.<sup>11</sup>

In the absence of any permitted channels of political and religious expression, mosques, charitable organisations or sports clubs have often been the only places where debate, albeit limited, could occur. Thus the government, by limiting the margins of dissent, has indirectly paved the way for the emergence of political Islam. However, even places for religious worship are subject to tight government scrutiny. In 1982 an order of the Ministry of Interior prohibited anyone to give a public speech in a mosque without official permit, followed in February 1987 by an instruction to mosque supervisors by the General Secretary of the Ministry of Pilgrimage and Religious Endowments to control the identities of the speakers and to check the validity of their permits. Control was further reinforced in August 1988 with the prohibition of the distribution of written advice and guidance, even if of religious content. For the Shi'a community even more stringent rules apply. Since January 1980 Shi'a leaders must submit a written pledge that they will not invite a Shi'a cleric from abroad and that they will not permit any political debate or criticism of the government's religious policies during the celebration of Shi'a ceremonies (Article XIX, 1991, p.35). As will be shown later, this extremely limited space for expressing divergent ideas has driven the most vocal critics - if not imprisoned - underground or into exile.

## **The Pan-Arab Challenge**

The monarchy's main challenge in the 1950s and 1960s, corresponding mostly to the reign of King Saud (1953-1964), was posed by movements inspired by the Arab Nationalist Movement. The ideas of Arab Nationalism found their inroad into Saudi Arabia via the expatriate Arab work force, especially the Palestinian community, the influx of Egyptian teachers and military advisors as well as via the dissemination of the 'Voice of the Arabs' broadcasts. Nasser actively supported the nascent Arab Nationalist movement in the Arabian peninsula by providing access to weapons and other assistance. The power struggle between King Saud and Crown Prince Faisal and King Saud's temporary sympathy with the Arab Nationalist movement created a 'situation of flux' in which there was more room for open political activity.<sup>12</sup> Compared to other Arab countries the role and appeal of Arab Nationalism remained, nevertheless, relatively marginal and was often contingent on foreign influence and support. As Helen Lackner argued: "the waves of left-wing activity have existed almost entirely as a side-show of other Arab states' foreign policies. For example the peaks of activity in 1962/1963 and later in 1966/1967 both coincided with a Nasserite onslaught on the Saudi regime, and the movements depended on Egyptian support for both material and propaganda" (Lackner, 1978, p.109). Once the outside support ceased and Nasser's success declined, the challenge of Pan-Arabism receded.

The strikes of the Aramco workers in 1953/54 represented the first serious manifestation of tensions between sympathisers of the Arab Nationalist camp and the monarchy. Whereas the first strikes, as explained in Chapter 3, were more an expression of the socio-economic deprivation and discrimination of the Aramco workers rather than an ideologically based antagonism towards the monarchy, the second major Aramco strike in June 1956 became much more politicised. The workers were better organised in 'Workers Committees' and their demands carried explicit Arab Nationalist as well as anti-imperialist undertones. The strikers called for an improvement in work conditions as well as for political reforms and an end to corruption. In the light of the impending renewal of the US lease for the air force base in Dahrhan in 1956, they also voiced their opposition to the subservient relationship between the ruling family and the Americans. The Workers' Committees constituted the first organisations providing a forum for the expression of political dissent. Some of its members later co-founded or joined other political movements, like the National Reform Front or the National

Liberation Front, renamed in 1975 into the Saudi Arabian Communist Party (Lackner, 1978).

After the 26 September 1962 revolution in North Yemen, the Arab Nationalist organisations inside the Saudi Kingdom were most active. Nasser, by supporting the movements, tried to undermine King Saud's support of the Yemeni Imam against the newly founded Yemen Arab Republic. Several conspiracies against the Saudi regime, some of them involving the army, were uncovered and a few small bombs exploded all over the country, some of them targeting American installations. The activities were met with Draconian measures: several activists disappeared, hundreds were arrested and some were executed, among them 17 Yemenis allegedly involved in planting bombs. The government also deported several thousand Yemenis suspected of involvement. One of the most active groups, founded in 1960, was the Union of the People of the Arabian Peninsula (UPAP) under the leadership of Nasser Said. The movement later changed its name to the People's Democratic Party and in 1972 to the Socialist Labour Party. The UPAP, which recruited its main supporters from the Shammar tribe and among students and intellectuals, advocated the unification of the Arabian peninsula and the introduction of some form of socialism. They were mainly involved in the distribution of anti-government leaflets and in several guerrilla activities in Riyadh. The movement suffered severely under the repression of the government in 1969 and in 1975. In 1979 Nasser Said, one of the most vocal critics of the Saudi regime, was kidnapped in Beirut and most likely killed by Saudi agents. Other groups active inside Saudi Arabia at the time included the National Reform Front (founded in 1956), the National Liberation Front (founded in 1958), the Saudi branch of the Ba'ath party (founded in 1958), the Popular Democratic Party (founded in 1969), which was the first organisation with a women's branch, and the Popular Struggle Front (founded in 1971).<sup>13</sup>

The influence of the Pan-Arab movements subsided with the decline of Nasser's prestige after the 1967 war and the subsequent withdrawal of Egyptian forces from Yemen as well as due to socio-economic improvements for the majority of Saudi citizens. Saudi Arabia also began to assert, under the new leadership of King Faisal, a more prominent position in the Arab and Islamic world which reached a height in the wake of the oil embargo of 1973. Helen Lackner attributed the weakness of the leftist forces in



achieving their objectives and in eliciting the support of a more wider spectrum of Saudis to the divisions within their own ranks. Also, by adhering to the emotional appeals of the Arab Nation, they failed to address specific internal Saudi issues (Lackner, 1978, p.97). In the 1970s the opposition gradually shifted from an Arab Nationalist to a more Saudi orientated nationalist movement, which considered oil as a national patrimony rather than one that should be shared between all Arabs. Their criticism of the government focused more on its oil policy and what they perceived to be American domination (Buchan, 1982, p.116). Since the 1970s there seem to be no widely known and organised secular opposition groups.

### **BALANCING THE THREATS - THE CHALLENGE FROM WITHIN THE ROYAL FAMILY AND THE SECURITY APPARATUS**

The temporary appeal and success of the Arab Nationalist movement in Saudi Arabia was related to the open sympathy of some members of the House of Saud with the ideals of the Arab Nationalist movement. The Liberal Princes' dissidence, led by Prince Talal, represented the first and so far only occasion in which high-ranking members of the royal family openly criticised and challenged the hegemony of the Al-Saud.<sup>14</sup> Talal and several of his brothers had helped Crown Prince Faisal to assume power in 1958 after King Saud's plans to assassinate Nasser had become public and after Saud's policies had plunged the country into serious problems. King Saud committed some gross policy errors, the financial situation of the monarchy had deteriorated and according to Philby: "[a]ppalling corruption was corroding every level of Saudi administration" (Lacey, 1982, p.309). Talal was later disappointed that Faisal did not implement the reforms he had promised and once again sided with King Saud to regain power at the end of 1960. The new cabinet under Saud included three of the liberal princes. Talal became Minister of Finance and over half of the cabinet posts were occupied by commoners, among them several who sympathised with Arab Nationalist ideas. On 25 December 1960 Mecca Radio announced that a constitution would be drafted and a legislative council established, only to be denied a few days later and followed by a statement that the Council of Ministers never approved such a resolution. Talal had to resign from his ministerial post in September 1961 after he had reiterated his call for a constitution and had announced that the agreement with the US over the

Dahran airbase would be abrogated (Lackner, 1978, p.91). By 1962 widespread Pan-Arab sympathies, army defections and difficulties in Yemen had led to serious internal problems and Faisal resumed power with the backing of senior princes and the support of the *ulama*. Talal left the country, his Saudi passport was confiscated and finally came to Cairo where he was joined by his brothers Badr, Fawwaz and his cousin Sa'ad Ibn Fahd. From Cairo the 'Free Princes' broadcasted for the 'Arab National Liberation Front', created in 1963, through the 'Voice of the Arabs' and called upon the Saudis to overthrow their 'corrupt and reactionary regime'. The Free Princes' failure in eliciting widespread support among the royal family for the reform proposals is partly attributable to the fact that by publicly challenging the monarchy they went beyond the accepted limits of criticism. Their reform programme also did not receive the approval of the *ulama*, which considered the proposed innovations as a contradiction to the *shari'a*.

Ghassan Salamé has noted that radical political change in Saudi Arabia will ultimately depend on the capacity of the opposition to exploit existing differences within the royal family. Until the 1980s the coups that posed the most serious challenges to the monarchy resulted from, or were aggravated by, struggles within the House of Saud, like the Saud-Faisal struggle, Prince Talal's dissidence and the assassination of Faisal in 1975 (Salamé, 1980, p.9).<sup>15</sup> Disagreement about the direction of development of the Kingdom, open competition for the succession to the throne and for political leverage within the various branches of the House of Saud have often proven to be serious divisive factors.<sup>16</sup> The huge size of the royal family can be both an asset as well as a liability for the stability of the monarchy. The ubiquity of members of the royal family, all with a stake in the survival of the regime and especially their presence in the security apparatus, renders a complete overthrow of the House of Saud extremely difficult, if not virtually impossible. On the other hand, intra-family rivalries can have adverse effects for the cohesion of the state. Not much is known about intra-family disputes and the absence of reliable information has given rise to speculations, often fuelled by dissidents, about substantial disagreements and tensions. However, for a serious family conflict to emerge and for it to have repercussions on the political scene and stability of the country, the system of consensus with the informal consultative assembly of princes<sup>17</sup> will have to weaken, and certainly the House of Saud is aware that it is crucial to project an image of unity to maintain its hegemony.

After Talal's open opposition, intra-royal family struggles were largely carried out behind the scenes and news of family differences rarely surfaced. Issues of contention seemed to focus on the pace of development and the extent of modernisation in the country. In the mid 1960s the conflict between royal family members supporting the modernisation programmes of King Faisal and those opposing the opening of the country led to violent clashes in which Prince Khalid bin Musa'id was killed. In 1975 Prince Khalid's brother Faisal bin Musa'id took revenge for his brother's violent death and shot King Faisal. The transitions of power to Khalid in 1975 and to Crown Prince Fahd after the death of King Khalid in 1982 went relatively smoothly. Rumours of power struggles surfaced again in the early 1980s. Abir mentioned intense power struggles "accompanied by growing criticism of Fahd's 'catastrophic' oil policy, responsible for the kingdom's economic crisis, on the one hand and his 'inept' foreign policy on the other..." (Abir, 1993, p.99). Particularly since the deteriorating health of King Fahd, the issue of succession has become the main target of speculations and rumours about intra-royal family disputes, in particular the power struggles between Crown Prince Abdullah and Prince Sultan.<sup>18</sup>

Another issue of contention within the House of Saud is represented by the attempt of some of the royals to place their own sons in important positions, like King Saud or King Fahd in the mid 1980s, and the domination of key positions by the so-called 'Shudairi Seven' (the sons of Hassa Al-Shudairi and Ibn Saud).<sup>19</sup> In 1962 King Faisal (not a Shudairi) appointed Prince Fahd as Minister of Interior and Sultan as Minister of Defence while Salman became Governor of Riyadh. These three positions have since been held by the 'Shudairi Seven'. Abdullah, now Crown Prince, was given command of the National Guard which he still heads.<sup>20</sup> Only few sons of Ibn Saud are involved in the actual decision making process, those who, due to their maternal affiliations, belong to less powerful factions of the Al-Saud are largely excluded from the political process and their position within Saudi society is limited to those of a privileged class. Wealth and the availability of high ranking jobs for the princes have so far reduced the likelihood of intra-family struggles. With an increase in competition for positions, stipends, land grants and business contracts, interests may begin to collide and the growing size of the family is likely to weaken its cohesion, control and solidarity, which could, in the long run, lead to some of them leading or joining the opposition. As Richards and Waterbury warned:

Indeed if power is a resource and the House of Saud share it among its sons, there is a Malthusian crisis in store. Rival princely lineages maneuver for official positions in the government and armed forces... government contracts and business licenses, and the myriad of financial and trading privileges the Saudi state is able to dispense. The kingdom is still in the hands of the direct offspring of Abd al-Aziz, the founder, but once the current generation passes from the scene, there will be an enormous pool of princes available from which to choose the king, but no clear rule to guide the selection (Richards and Waterbury, 1990, p.321).

The new Basic Law regulates the succession, and a simultaneously issued Royal decree confirmed Abdullah as Crown Prince.<sup>21</sup> This however, does not guarantee that rivalries will not become a crucial issue after King Fahd's death. Due to the age of Ibn Saud's sons,<sup>22</sup> their period as monarchs is likely to become shorter, which could create a lack of continuity in the government, or, if the successor is to be chosen from among the grandsons of Ibn Saud, the competition is likely to be fierce.

Crown Prince Abdullah seems to be quite popular among large segments of the population especially among the tribes. Abdullah is also said to have established secret contact with the opposition in exile (APS, 8 February 1996, p.21). Most opposition groups have refrained from criticising Abdullah and have not included him in their lists of corrupt princes. The Committee Against Corruption in Saudi Arabia (C.A.C.S.A.) for example stated:

Saudi Arabia is in the midst of major changes...In order for C.A.C.S.A. to project a fair and patriotic image, the Founding members of the Committee have decided...to give King Abdullah's rule a chance to dramatically change the society that Fahd built... All signs indicate that King Abdullah will be a better ruler and will appropriately make a difference. C.A.C.S.A. will not criticise King Abdullah but will not stop criticising the Shudeiri Seven.<sup>23</sup>

For any successor it will be a difficult act of balance to head the House of Saud, to placate the wishes of the royal family and at the same time to address some of the causes of Saudi Arabia's financial problems, i.e. the corruption and profligacy of several members of the royal family. Should the king, as part of austerity measures, decide to relinquish some of the highly subsidised, non lucrative sectors of the economy, he will have to keep in mind that many of these industries or agricultural companies are preserves of princes. Cuts in subsidies or reductions in the generous stipends allocated to the large Al-Saud family could backfire and fuel potential rivalries.

The development of Saudi Arabia's security apparatus, its strength and structure, has been determined by the attempt to balance internal and external security threats. Mark Heller and Nadav Safran listed a variety of factors that could increase the likelihood of the military championing the cause of the discontented: social or professional grievances, limited social mobility and external interference, particularly disagreement with the government's policy towards the West (Heller and Safran, 1985, p.24). Similarly, Nazih Ayubi mentioned that:

the presence of foreign personnel on native soil and their countries' inevitable 'interference' with national policies will become a source of humiliation for the people in general, and for the military in particular. If this is added to a whole range of internal grievances that the new middle class may increasingly harbour, the possibility of military intervention in Saudi politics may become more likely with the passage of time (Ayubi, 1995, p.287).

To avoid such a scenario, the government has taken several precautionary measures. The simultaneous built-up of a regular army and the National Guard was partly motivated to prevent any one branch of the Al-Saud family to become too powerful. The division of the military forces into several different branches, as well as the existence of various paramilitary and intelligence units, serves also as a pre-emptive measure against the emergence of an independent power base within the army. The king has overall command; the conventional army, air force and navy is headed by Prince Sultan, Minister of Defence and Aviation and second in line of succession to the throne; the National Guard is headed by Crown Prince Abdullah, Prince Naif heads the Frontier Force, the Civil Defence Force and the police and Prince Turki al-Faisal commands the Saudi intelligence force. Other members of the royal family occupy high-ranking positions, for instance Prince Abdul Rahman is Deputy Minister of Defence and Aviation and Prince Badr bin Abdul-Aziz is Deputy Commander of the National Guard. Additionally, most leading officers have strong links to the House of Saud (Cordesman, 1997, p.93). The division of the armed forces into a regular army, the National Guard and several intelligence and paramilitary units renders a military coup difficult but has also negative effects on the overall co-ordination and performance of the military.

Security issues are attributed a very high priority; particularly since the oil boom in the 1970s and at the beginning of the Iran-Iraq war, huge sums have been invested into the development of a capital intensive and highly sophisticated military force. Defence

related expenditures continue to represent a very large proportion of government spending and, as mentioned previously, have been cut only slightly despite significantly lower incomes. Anthony Cordesman estimated that the modernisation of the military in the last decade cost the government at least \$290 billion in military expenditures, including approximately \$71 billion for arms transfers at constant 1993 prices (Cordesman, 1997, p.4). Despite the massive investments and considering the huge territory and the vulnerability of the country, the Saudi military force remains rather small.<sup>24</sup> Consequently, Saudi Arabia continues to depend heavily on the United States' power projections as an ultimate deterrence and guarantor of its external and internal security and relies heavily on foreigners in the military: contentious issues that have fuelled nationalist as well as religiously motivated anti-American sentiments, as discussed later. For a long time the military had to cope with manpower constraints, a military career, despite attractive material incentives, seemed to offer little attraction for young Saudis. The recruitment policy of the government remains also linked to loyalty concerns, thus recruitment for the officer corps discriminated especially against Hijazis in the 1970s and still discriminates against Shi'a due to their perceived uncertain loyalty.<sup>25</sup> Recruitment from regions and tribes that were opposed to the Al-Saud rule in the 1920s and 1930s is largely avoided. This policy of considering loyalty rather than meritocracy undoubtedly has consequences for the efficiency and professionalism of the military and can nourish grievances within the population in general (Ayubi, 1995, p.285). The government is reluctant to supply details about the involvement, the size and role of its 'mercenary force' and foreign military advisors and is emphasising its commitment to address the indigenous manpower shortage. In the late 1980s King Fahd underlined the "need of educated men to operate the sophisticated weapons system... young men who have completed their studies... should come forward to serve in the Army, the National Guard, the Public Security and other military services for a year or two as required" (SG, 27 July 1988). Since the Iraqi invasion of Kuwait the debate about the introduction of conscription intensified again, yet no further intentions have been made public and the religious establishment continues to oppose it. In the long term demographic developments and rising unemployment might increase the attractiveness of a military career.

Several incidents underline the uncertainty of the army's loyalty, many of the smaller incidents were probably never made public. Dissent within the military was particularly

widespread in the 1950s and 1960s under the influence of the Pan-Arab movement but also in the 1970s. In 1955 for example, there was a pro-Nasser army rebellion in Taif and reports about assassination plans against members of the royal family surfaced. King Saud reacted immediately to the threats and reinforced the security arrangements by establishing the Royal Guard and the 'White Guard', the precursor of the National Guard. In 1969 a few nationalist-orientated Air Force officers based in Dahrhan attempted a coup and planned to assassinate King Faisal. Most rebels, predominantly from the air force but also supported by civilian opposition, were subsequently executed and the procedure for the selection of Air Force officers was changed. In the summer of 1977 1,300 army personnel and civilians were reportedly arrested on charges of attempting a coup, demonstrating the relatively large scale of discontent within the military (Schechterman, 1986).<sup>26</sup>

In the 1970s the causes of discontent among the army personnel could also be found in the relatively low level of pay in the military compared to the civilian sector and in the unsatisfactory training and housing facilities. As a result, salaries were raised, training conditions were improved, the National Guard was strengthened as a counterbalance to the regular army, and an elaborate system of intelligence networks and checks and balances was installed. Since then the amounts of known coup attempts within the military have declined.<sup>27</sup> Most of the important command positions, especially in the air force, are held by members of the royal family from where they can oversee the development of any potential disaffection. Nevertheless, social grievances, the lack of promotion opportunities, particularly for commoners, and the exclusion of the officer corps from defence related policy making could still provide motives for discontent.

Subsequent Saudi rulers have acknowledged the vital pre-emptive political and integrative role of the National Guard as an instrument of integrating tribal elements that are "ill prepared for urban life and technological development, whom a forced sedentarism might transform into hostile and frustrated individuals" (Salamé, 1980, p.9).<sup>28</sup> More than functioning as a modern internal security force, the National Guard serves as a means to allocate funds to the Bedouins. It allows "key princes to maintain close relations with the tribes, and is an extension of the Majlis system....This organization makes the tribal portion of the Guard politically vital to ensuring the integration of Saudi Arabia's tribes into society" (Cordesman, 1997, p.140). Since the

early 1970s the National Guard increasingly became a counterbalance to the regular armed forces. In the eventuality of a coup d'état involving the armed forces the royal family could, they hope, count on the National Guard for protection. National Guard units are also deployed in sensitive sites to protect, for instance, strategic positions in the oil industry.

The reliability and loyalty of the National Guard are, however, not beyond doubt and by encouraging rival factions simultaneously, the Al-Saud have taken precautions to avoid unrest or concentration of power. Leaders of the National Guard units are selected according to their loyalty and from various tribes and tribal factions and in some regions, like in the Shammar tribal area, no National Guard units have been established. The performance of the National Guard during the Mecca uprising in 1979 raised serious questions about its ability to deal with internal security threats and has highlighted its uncertain loyalty. Several officers and soldiers refused to open fire on the insurgents and "some may have even helped rebel groups to flee" while others might have provided "hundreds of boxes containing ammunition and medium machine-guns, as well as masks to counter poisonous gas or to use against tear gas, in addition to food and medical supplies". Once the authorities became aware of this assistance the National Guard units were replaced by army units (Kechichian, 1990, p.7). According to the assistant deputy commander of the National Guard, Abdul Aziz al-Tuwayjiri, "Juhayman's weapons came directly from the stores of the National Guard and were driven into the mosques in convoys of National Guard trucks" (Mackey, 1987, p.231). Although since then no other such incidences seemed to have occurred, Cordesman argued that until today the National Guard has not "developed a high capability for sophisticated internal security operations in dealing with well organized cells or sophisticated hostile groups that hide under political cover" or "to deal with high technology forms of infiltration, terrorism and sabotage" (Cordesman, 1997, p.139).



## THE SHI'A COMMUNITY AND ITS OPPOSITION TO THE REGIME

Chapter 2 has illustrated that in the early 1920s a significant schism between Ibn Saud and the Ikhwan movement over the nature and orientation of the Saudi state emerged. This schism became particularly evident regarding policies towards the Shi'a community in the newly conquered territories of Al-Hasa. The attitude of the Wahhabis towards Shi'a Islam is a reflection of their unitarian ideology, which centres around the principle of *tawhid*, the unity of God. This unity also means unity against the *rafida* (expression used for Shi'a by the Hanbali), the *kuffar* (unbelievers) and idolators (Salamé, 1987, p.308). The Shi'a practice of saint worship and grave cults are regarded as idol worship, Shi'as are often referred to as polytheists or unbelievers, against whom it is a duty to lead *jihad*.<sup>29</sup> While the Ikhwan in their messianic fervour were anxious to spread their version of Islam and to convert all those they perceived to be non-believers, including Shi'a, Sufis, etc., Ibn Saud was more concerned with the stability and consolidation of his rule. After the defeat of the Ikhwan in 1929 the confrontational approach towards the Shi'a population was replaced by a more pragmatic policy, the main objective being the unification of the country and allegiance to the Al-Saud regime. Shi'as were permitted to observe their religious customs in private and to a certain extent gradually integrated into Saudi society.

In the absence of reliable censuses estimates of the size of the Saudi Shi'a community vary significantly. Goldberg estimates their number at 350,000, Buchan at 400,000 and Abir at 500,000. The majority of Shi'a are concentrated in the Eastern Province especially in the Al-Hasa and Qatif area.<sup>30</sup> Economically and strategically the Eastern Province is one of Saudi Arabia's most important areas. The majority of its oil fields are located in the area and its strategic significance derives from its proximity to Bahrain, Southern Iraq and Iran with predominantly Shi'a populations. The influence of foreign countries or movements and regional events on the Shi'a minority in Saudi Arabia, combined with the latter's discrimination by the regime, have encouraged the Shi'a's opposition to the Al-Saud regime. This became particularly evident in the 1950s and 1960s with the rise of Pan-Arabism and in the aftermath of the Iranian revolution, after which the vociferousness of the discontent of the Saudi Shi'a community has been directly or indirectly linked to the relations between Saudi Arabia and Iran.

While the advent of oil revenue significantly improved the living conditions of most of the Saudi citizens, the majority of the Shi'a remained at the bottom of the socio-economic ladder and profited only marginally from the oil found under 'their' province. Few Shi'ites managed to penetrate to the managerial level and are still excluded from many middle and higher ranking posts in the civil service and from positions in the army and security services. To this day they continue to be discriminated against in many other areas, for example testimony of Shi'ites is not admissible in Saudi courts, they were also prevented from building their own mosques, from using their judicial system as well as from holding public religious ceremonies. Saudi history books often contain derogatory remarks about the Shi'a faith, their literature is mostly banned and their history not allowed to be taught in schools, thus, as one commentator argued "cultural discrimination is perhaps the most bitter for them" (Abir, 1993, p. 84). In the 1950s and 1960s jobs offered at Aramco and the company's education schemes partially offset the employment discrimination by the Saudi government and the company thus proved "instrumental in the rise of a relatively sophisticated Shi'ite middle class and intelligentsia alongside a socially aware working class" (Abir, 1993, p.83). The educated Shi'ites and the oil workers became increasingly involved in the trade union activities and radical Arab Nationalist movements, described above, and some joined branches of the Popular Front for the Liberation of Palestine (PFLP), the Nasserite Union of Peoples of the Arabian Peninsula (UPAP) or the Ba'ath party. As part of a wider opposition under the banner of Pan-Arabism they co-operated with Sunnis, the first and so far only occasion of co-operation between Saudi Sunni and Shi'a dissenters.

After the Iranian revolution in 1979 the protests and demands that were already voiced in the strikes of the 1950s and 1960s took a more religious dimension. The revolution marked a watershed for the Shi'a community in all Gulf countries; more self-confident and willing to challenge the regime their latent hostility turned into open protests against their discrimination, but also more generally against the monarchy and its relations to the United States. Iran played an important role in fuelling the situation, assisted with tapes, radio broadcasts and leaflets against what they labelled an 'unpious' and 'un-Islamic' monarchy. Iran also tried to exploit the Saudi Shi'a's grievances for its own purposes, the assistance to the Shi'a opposition was *inter alia* aimed at Saudi Arabia's generous assistance to Iraq during the Iran-Iraq war. The situation in the Eastern Province escalated in December 1979 when the Shi'a community decided to hold the

Ashura ceremony in public<sup>31</sup> and demonstrations erupted calling for an end to the discrimination, demanding the stop of oil supplies to the United States and expressing support for the Iranian revolution.

The disturbances of 1979 represented the first open political challenge by the Shi'a population as a religious minority and coincided with the seizure of the Grand Mosque in Mecca, described below, yet no evidence of co-ordination between the two incidences could be established. The government heavy-handedly clamped down the demonstrations, which resulted in the death of several demonstrators and a wave of arrests of suspected activists. Security installations, especially in the oil industries, were substantially reinforced and, following the outbreak of the Iran-Iraq war, the military presence was further increased in the Eastern Province. In 1979 the Islamic Revolution Organisation (IRO) was founded in Saudi Arabia and was later joined by small groups of Shi'a workers, Marxist, Ba'athist and pro-Iranian organisations. They strongly criticised the 'American Islam of the Saudi Authorities' (Ayubi, 1995, p.233) and advocated the establishment of an Islamic republic in Arabia. The group launched a few hijacking attempts in 1984/85 and attacked Saudi diplomats and embassies abroad. Saudi and non-Saudi militants, mainly from the Eastern Province, suspected of membership in the IRO were arrested at the end of 1984 and many Arab employees, especially Palestinians, suspected of sympathising with the organisation were deported from the Kingdom and replaced by Pakistani and other non-Arabs (Al-Yassini, 1985, p.123). After the crackdown several young Shi'a activists went into exile, mainly to London, to carry on with their struggle, a few continued to operate from underground, launching a wave of bomb attacks throughout the 1980s.

Calling for a fairer distribution of wealth and an end to the discrimination and marginalisation, described above, the demands of the protesters also had a clear economic dimension. In an attempt to avoid an escalation of the Shi'a community's resentment to the Al-Saud rule, the 1980s the Saudi government began to pay more attention to the Shi'as economic grievances and promised to improve the infrastructure and education in the Shi'a areas. Furthermore, many Shi'a detainees were released in a general amnesty and the Ashura celebrations legalised. Once development schemes brought significant economic gains to the Eastern Province, the main rationale to confront the regime lost in importance and open confrontation subsided.<sup>32</sup>

For a long time after the Iranian revolution relations between Teheran and Riyadh were very tense. The Saudi authorities frequently accused Iran to ferment unrest inside the Kingdom, to smuggle explosives in the country and to encourage or carry out subversive acts during the pilgrimage in Mecca.<sup>33</sup> In the wake of the Mecca riots in July 1987, in which several hundred Iranian pilgrims died, security was tightened particularly in the Eastern Province and diplomatic ties with Iran were severed. In a subsequent wave of violence in the Qatif area, three policemen were killed, followed by a series of arrests and several executions. Starting after the Kuwait crisis the relationship began to gradually thaw, low level diplomatic ties were restored in 1991, Crown Prince Abdullah visited Teheran in December 1997 for the summit of the Organisation of Islamic Conference, followed by a visit of the former Iranian president, Akbar Hashemi Rafsanjani, to Saudi Arabia in February 1998, and followed by two accords to increase the co-operation in economic, trade and cultural activities and the Saudi decision to increase the quote of Iranian pilgrims.

After the Kuwait crisis the exiled Shi'a leadership adopted a more pragmatic stance, moderating their opposition and moving away from their extreme demands. The IRO also changed its name into Reform Movement in 1992. They no longer called for the overthrow of the current regime, distanced themselves from radicalism and focused on demanding political reforms, religious tolerance, dialogue and human rights. Mamoun Fandy maintained that the rapprochement already occurred in the late 1980s, a "notable shift had occurred in Shia discourse by 1988, signalling an end to the revolutionary rhetoric in favor of a broader agenda of democratization and human rights" (Fandy, 1999, p.199). In 1991 several leaders of the Shi'a community living inside Saudi Arabia welcomed, in a letter addressed to the king, the proposal of a Consultative Council and demanded that the Shi'a community should be represented in the *majlis*. Stressing that they "have been subject, during the past, to harassment when observing...religious rites, and have been discriminated against on all levels and in every way...particularly when applying for permission to build houses of worship and mosques...not allowed to possess or keep own religious books" (Article XIX, 1991, p.51).

The change of attitude has not escaped the attention of the Saudi government, particularly when the Shi'a refrained from any overt political action during the occupation of Kuwait by Iraqi forces. There were only few clashes with Saudi security

forces, for example, in March 1991 several thousand Shi'a of the Eastern Province demonstrated in solidarity for the Iraqi Shi'a, whose uprising was brutally suppressed by the Iraqi forces, and against the detention of the prominent Shi'a cleric, Ayatollah Abul Qasim Al-Khoei, by Iraqi security forces. As a response to the demonstration the Saudi regime reportedly arrested 50 of them. The Saudi government began secretly to seek dialogue with the exiled leaders and in October 1993 reached a clandestine agreement. Resistance activities and the publication of 'Al-Jazira al-Arabiyya'<sup>34</sup> were promised to be abandoned in return for more civil liberties, assurances to address long-standing complaints about discrimination like the ban on building Shi'a mosques as well as promises for additional investments and the creation of more economic opportunities. Several members of the Shi'a opposition returned to the Kingdom, some 40 Shi'a political prisoners were released and high government officials and royal family members began to visit the Eastern Region more frequently.

Despite the above mentioned pledges, opposition from the part of the Shi'a did not cease but changed from open confrontation to a search for cultural authenticity. Mamoun Fandy spoke of a "change in tactics from direct confrontation to creative resistance" (Fandy, 1999, p.201) evident, for instance, in the publication of several magazines that concentrate on the culture and history of the Saudi Shi'a community. Direct confrontations are replaced by resistance on the level of cultural contestation:

An assessment of the Shi'a opposition in the 1990s shows that economic development in the region did not immediately succeed in pacifying the Shi'a and winning their allegiance. Economic development did appeal to the traditional Shi'a leadership, who were satisfied with the promises of the state. However they did not succeed in pacifying the young Shi'a activists, who were influenced by the rising tide of political Islam in the Middle East, and looked to Iran for guidance (Al-Rasheed, 1998, p.123).

While the cultural contestation does not pose an immediate threat to the regime, it does require a reassessment of the monopoly of religious discourse by the Wahhabi clerics and a reorientation towards more religious diversity, difficult to pursue in a time of rising criticisms of the Al-Saud's religious credentials. Coexistence as equals seems to be obstructed by a stress on the religious differences and the lack of religious tolerance on part of the establishment *ulama* but also on part of some members of the dissident groups. The *fatwas* of the late Ibn Baz have continuously provided religious justification

for the discriminative policies and violence against the Shi'a minority. In 1990, for instance, a member of the Council of Senior Ulama proclaimed "[t]he Shi'a are mostly polytheists since they always call on 'Ali...This is the greatest act of polytheism and apostasy from Islam for which they deserve to be killed".<sup>35</sup> No action or condemnation of the *fatwa* on part of the authorities is known to have taken place. A first positive sign might be the meeting between Ibn Baz and Sheikh Hassan al-Saffar after the latter's return from his London exile (Fandy, 1999, p.200).

Some demands of the Wahhabi opposition correspond with those voiced by the Shi'a community particularly the criticisms relating to the government's economic policies. However, Shi'a criticism is primarily concerned with their own community's socio-economic discrimination; once discriminatory practices diminished open opposition has receded. Additionally, Al-Hasa where the majority of Shi'a live and where the oil industry is located has been less affected by the recession and unemployment than other parts of the Kingdom. In the moment it is therefore unlikely that the fiscal crisis will increase their opposition to the Al-Saud. So far no links seem to have been established between the Wahhabi and Shi'a opposition, too polarised are the religious differences and too divergent many of their objectives. A broad opposition front similar to the Pan-Arab movements in the 1950s and 1960s, encompassing Sunni and Shi'a sympathisers, is hence not likely to emerge. The fear of Iran, concern about the oil of the Eastern Province and the religiously based dislike of the Shi'a would most likely consolidate Sunni support of the regime in case of a Shi'a uprising.

The deterioration of the relations between the Saudi government and the Shi'a community in the wake of the al-Khobar bombing in June 1996 indicated that the situation remains fragile and that mutual suspicion continues. The incident seriously affected the reconciliation deal, particularly the random arrest of many Shi'a from the Eastern Province, in which at least one of the detainees died in custody. In June 1996 a Shi'a newsletter published in Washington complained that the promises pledged in the 1993 agreement had not been kept. A few months later several Shi'a clergymen demanded the release of 23 Shi'a clergy who had been arrested after the al-Khobar bombing (EIU Country Profile, 1999-2000, p.8).

Recently relations between the government and the Shi'a community seem to improve again, accelerated by the further rapprochement between Riyadh and Teheran. After the visit of Mohammad Khatami, the Iranian president, to the Kingdom in May 1999 a prominent Saudi Shi'a and member of the *majlis al-shura*, Dr. Jamil al-Jishi, was nominated as the new Saudi ambassador to Iran, indicating the importance attributed to a further improvement of relations with Teheran and the significance of the Saudi Shi'a community in facilitating such an improvement.

### **'POLITICAL ISLAM' - A NEW CHALLENGE**

The doors are open... However, over the last two years or so, we have seen things which we had never seen before and which had definitely never existed in our country. For someone to direct us from outside our homeland is not acceptable because we are a people of faith... what is not desired is that issues should be brought out in the open (King Fahd).<sup>36</sup>

The use of Islam to legitimise the claim to rule proves to be a double-edged sword for the Al-Saud family.<sup>37</sup> On the one hand, Islam provides the primary force of cohesion in the Kingdom and continues to be the main official legitimating source. Al-Yassini described the role of religion in Saudi Arabia as follows: "[t]he state took over religion for the purpose of restructuration, to bring its beliefs and institutions into conformity with national objectives... in effect the political sphere enhanced its legitimacy through the rationalisation of policies in religious terms" (Al-Yassini, 1985, p.78). On the other hand, the strong identification with Islam invites the regime's opponents to use it as a standard for judgement. The excesses and the profligacy of many members of the royal family are in stark contrast to the puritan-like spirit of the Wahhabi interpretation of Islam and may "have the ironic effect of making (the monarchy) illegitimate" (Piscatori, 1984, p.65). Islamic rhetoric cannot conceal the corruption nor the relationship with the West, as one critic stated: "the irony of the most Muslim state...becoming the most Western-looking country is there for all to see. To bridge the gap between the two... hypocrisy, official and personal, has been elevated to a science... nothing is called by its right name" (Aburish, 1994).

After the defeat of the Ikhwan forces few major confrontations between the government and Islamic activists occurred and Islamic dissent was limited to criticisms regarding the government's modernisation policies, like technological advances or the introduction of education for female students. In 1963, for example, King Faisal issued a decree authorising the construction of television stations without prior consultation of the *ulama*, who argued that the reproduction of images of human beings was against the teachings of Islam and for the first time openly demonstrated in the streets of Riyadh. At the height of the popularity of the Pan-Arab movement, criticism of the state's religious credentials remained muted as the Al-Saud regime was seen as confronting the 'secular' onslaught.

The take-over of the Great Mosque in Mecca in 1979 by Juhayman represented the first serious challenge to the monarchy by Islamic opponents, it "signalled the transfer of the internal opposition to the House of Saud from an Arab to a Muslim mould" (Aburish, 1994, p.168). However, Juhayman's criticisms could not win the support of a wider spectrum of Saudis and until the end of the 1980s open criticism of the regime from the Islamic constituency was relatively rare. In the late 1980s first, but relatively isolated, criticisms of the government and the secularisation of society began to be voiced.

The Kuwait crisis transformed the Islamic challenge to the regime, it brought to the surface hitherto hidden or muted religious discontent and, more importantly, increased the criticism of the establishment *ulama* because of their 'subservient' relationship to the House of Saud. Open opposition to government policies and the religious establishment came no longer only from groupings outside the state *ulama* but also found its sympathisers among the establishment *ulama*. Criticism was expressed in letters to the king, in sermons and tape recordings targeting the alliance of the Al-Saud with the West, and later with the creation of the Committee for the Defence of Legitimate Rights (CDLR). The repression of the government and the clamp-down of activities drove many of the political and religious activists underground, others went into exile and some remain imprisoned. The government argues that because its system is already so Islamic, opposition on Islamic grounds is meaningless, all the Islamists want is power and portrays its opponents as threats to Islam. As Ghassan Salamé has asked, "[i]s it possible to be more (or at least differently) Muslim than the Muslim regime?" (Salamé, 1987, p.307, emphasis in original).



## Rise of Islamic Opposition

The royal family is corrupt. It worships money and spends it on palaces not mosques. If you accept what they say, they will make you rich, otherwise they will persecute and even torture you (Juhayman).<sup>38</sup>

Our doors are open and our ears are listening to everyone who wishes to give Muslims the benefit of his advice in an acceptable and endearing manner (King Fahd).<sup>39</sup>

Particularly since the 1970s the Saudi government encouraged religious education, Islamic universities were built and many of the graduates of the religious colleges were sent abroad to 'messianise' and to set up Koranic schools. Gregory Gause argued that the Saudi regime by providing the *ulama* with secure salaries, social status, funds and importance and an opportunity to proselytise abroad, attempted to link the ideological and political interests of the *ulama* to the Saudi regime (Gause, 1994). Generous funds were allocated to Islamic opposition movements all over the world, many Islamic activists from other countries were granted asylum and volunteers sent to fight in Afghanistan and Bosnia, these later returned to the country and are estimated to number between 5,000 and 10,000. Today some of these so-called ex-Afghans constitute some of the most ardent critics and opponents of the ruling family.

The first open confrontation occurred when on 20 November 1979 Juhayman al-Otaibi and several hundred of his followers took over the Great Mosque in Mecca and announced that they came to save Arabia from its corrupt rulers. The insurrection drew attention to the uncertainty of the monarchy's religious legitimation and to the role of the *ulama*, whom Juhayman accused of being agents for a corrupt regime, misusing their religious authority to legitimise an illegitimate monarch and called on them to withdraw their allegiance. In one of his pamphlets he asks "[w]here is it that the ulama and sheikhs find their money, except through corruption" (Abir, 1993, p.81). The take-over also underlined the inefficiency of the government in maintaining internal security but, more important, it highlighted their failure in integrating the traditional forces. As already mentioned, the National Guard was called to suppress the insurgency, the mosque was encircled by troops and after great efforts, heavy casualties on both sides and with the help of French anti-terrorist specialists the insurgents surrendered after two weeks. The use of force in the mosque was sanctioned by a *fatwa* which labelled the

insurgents as 'criminals', 63 of the approximately 170 surviving insurgents were later publicly executed.

In its demands Juhayman's group, clothed in the same attire as the Ikhwan and also calling themselves 'al-Ikhwan', reminded of the fervour of the Ikhwan movement in the 1920s in their opposition to the innovations and the relationship of Ibn Saud to the 'infidels'. An analysis of Juhayman's writings suggests that his insurrection was aimed primarily at the hegemony of the Al-Saud and that his motivations were essentially political in nature. Joseph Kechichian argued that Juhayman's group was fighting for the restoration of the Ikhwan's position in the Saudi polity. Since the defeat of the Ikhwan forces, Ibn Saud and his successors have attempted to curb the missionary attribute of Islam and instead fostered an institutionalised religious faith and establishment. The 'new Ikhwan' thus considered it their duty as 'true defenders of the faith' to restore their rights as part of the political and religious élite (Kechichian, 1990) and to reinstate the original puritan spirit of Wahhabism into the Saudi system (Nevo, 1998, p.41). The large presence of Najdis among the insurgents indicates that opposition to the monarchy emerged in its former power base. More important than the tribal background was the number of theological students from the Islamic universities of Mecca and Medina.<sup>40</sup> Disoriented and alienated by the social changes taking place, they exposed the failure of Saudi socialisation policies. Juhayman's background contained all the attributes of marginality vis-à-vis the Saudi ruling order: his lower class tribal background, his family history (his grandfather, Ibn Humayd Sultan bin Bijad, had been killed at the battle of Sabala, which links the new and the old Ikhwan ideologically and demonstrates the imperatives of tribal vengeance) as well as his experience in the National Guard and his personality "were made to set him on a collision course with the regime" (Dekmejian, 1985, p.141).<sup>41</sup> Many of the insurgents were drawn from Juhayman's tribe, the Otaiba, which had many grievances against the central authority of the Al-Saud. Juhayman also demanded that the Al-Saud give full account of the wealth stolen from the Saudi people and called for full accountability of the government, perhaps a reflection of the disappropriation of tribal lands and the government's land distribution policy (Salamé, 1987, p.312).

For many potential sympathisers with Juhayman's political objectives the take-over of the Holy Sanctuary represented an illegitimate and sacrilegious act. The messianic

character of his ideology and the claim to mahdship by his brother-in-law failed to mobilise widespread support for the cause.<sup>42</sup> Otherwise the outcome might have been very different as King Khalid himself expressed it “[i]f he had attacked my palace, he might have met with more success” (Lacey, 1982, p.512). In the wake of the Mecca insurgency the Saudi regime took great care to stress its commitment to Islam, restrictions on women were reinforced again and Prince Fawwaz Ibn Abdul Aziz, whom Juhayman had strongly criticised, was replaced as Governor of Mecca. In January 1980 Crown Prince Fahd announced the introduction of a Basic Law and of a Consultative Council. After the insurrection religious criticism of government policies remained limited and the religious resurgence manifested itself mainly in non-political ways, for instance, many young religious students joined the *mutawwa* as volunteers (Dekmejian, 1994). In the 1980s several Islamic activist groups emerged, disseminating pamphlets and mostly operating from the underground, yet their activities remained limited. In the 1970s and 1980s the young graduates and religious scholars that constitute today’s most vocal critics of the Saudi regime, enjoyed relatively good relations with the traditional scholars and *ipso facto* with the Saudi government.

### **The ‘New Islamists’**

The Gulf War, as discussed previously, undermined the government’s Islamic legitimacy and exposed its near total dependence on the West. The invitation of Western forces for the defence of the country and the *ulama*’s endorsement of the ‘necessity’<sup>43</sup> of the presence of ‘infidels’ also precipitated a loss of credibility of the official *ulama* and a schism within the ranks of the religious scholars. The ‘new Islamists’ include a growing proportion of young, well-educated, often middle-class religious leaders, university professors and students who are better informed about Saudi foreign policy and its connection with the United States. Analysing the signatories of the petitions of May 1991, mentioned in the previous chapter, and the one of September 1992, discussed below, Hrair Dekmejian showed that by regional affiliation, the majority of signatories comes from the Najd, the former powerbase of the Al-Saud family. Most of them have a non-tribal, urban middle-class background, were educated at religious institutions and have religious professions, such as professors, prayer leaders, jurists, preachers or judges (Dekmejian, 1994, pp.635). In their campaign against an inefficient and corrupt regime, they reach out to other discontented citizens and find support among urbanised

Bedouins, whose status of relative deprivation, “made them eager converts to the activist cause” (Dekmejian, 1994, p.629). Sons of religiously conservative Najdi tribespeople often were not able or did not complete their education, thus remain largely excluded from the opportunities offered by the civil service or participation in the modern economy. Others, educated solely in religious colleges, increasingly encounter difficulties in obtaining a job.<sup>44</sup>

Criticism of government policies was initially voiced only by a few brave individuals but later crystallised into a more coherent and organised form of protest with the petitions and then the formation of the Committee for the Defense of Legitimate Rights. The crystallisation commenced in the mosques and religious universities which provided the main forum for voicing discontent and led to the co-operation between members of the *ulama*, university professors, intellectuals and students. Following the petition of May 1991 (see previous chapter), some of the signatories issued a ‘Memorandum of Advice’ in September 1992 addressed to Sheikh Ibn Baz, reiterating their demands in a more forceful tone. They called for the “removal of all government restrictions on Islamic clerics, scholars and teachers”, demanded the participation of the *ulama* in all spheres of government activities, in ministries and embassies and the establishment of a supreme religious constitutional court that would review all legislation according to its compatibility with the *shari’a* (Dekmejian, 1994, pp.633). They criticised the government’s oil pricing strategy, condemned the charging of interests in Saudi banking, the borrowing at interest from foreign financial institutions and demanded the cessation of such practices. The letter also condemned the imposition of fees for driving licences, car registrations and the new annual car safety inspection. Several weeks later the authorities revised and decreased the fees again (Graham and Wilson, 1994, p.69). The immediate reaction of the Supreme Council of the Ulama was to condemn the letter as ‘misguided’ and ‘divisive’ and ignoring the good deeds of the government. Significantly, seven out of the 17 members of the Supreme Council of Senior Ulama refused to sign the condemnation, demonstrating that the demands have sympathisers among the high ranking members of the ‘establishment’ *ulama*. The seven were later dismissed and replaced by pro-government *ulama*.<sup>45</sup>

Friday sermons, often reproduced in clandestine tape recordings and pamphlets, increasingly started to include issues of internal and international politics and denounced

the corruption and moral laxity of the ruling élite. The majority of them, rather than advocating the radical overthrow of the regime, focused on the need for political reform and the introduction of the rule of law. Calling for equality before the law, accountability of government officials, elimination of corruption and usury as well as for the redistribution of wealth, they challenged the privileged social and economic position of the royal family.

Sheikh Safar al-Hawali, Dean of the Islamic College at Umm al-Qura University in Mecca, was one of the first to voice strong criticism of the presence of American forces on Saudi soil in his speeches, which were widely distributed in tapes throughout the country. One of his slogans was: Iraq has occupied Kuwait, then America has occupied Saudi Arabia, and rumours circulated that the Gulf War was masterminded by the Americans to strengthen their presence in the Gulf region. Mamoun Fandy contended that “what concerns him is not the problems of the Saudi State itself as much as its subordinate position to the United States, whose culture he sees as extremely hostile to Islam” (Fandy, 1999, p.62). Another young prominent preacher whose sermons have been recorded on several hundred different tapes, is Sheikh Salman al-Audah. Al-Audah stresses more the internal situation, criticising the Westernisation and secularisation of the Saudi state. He argued that:

corruption has taken its roots in our society as well as in nearly all other Muslim societies with varying degrees... It has engulfed all aspects of our life, from the spiritual to the mundane. Today, we find a deteriorated standard of morals in everything, from the world of commerce and politics to the ministries of education and information. A situation such as this calls for a sweeping reform... reform will not come about until we are ready to bear hardships for the sake of our beliefs there is an everlasting struggle between right and wrong, between reform and corruption, between guidance and deviation, between justice and oppression... That is why it is an obligation upon every reformer to prove his loyalty and truthfulness to Islam.<sup>46</sup>

The discourse of the preachers soon became too politicised to be tolerated and the government moved to ban them from preaching: “the preacher Salman Ibn Fahd Al-Audah has exceeded the limits and deviated from the fields of preaching and guidance... thus involving himself in matters not of his concern”.<sup>47</sup> He was also dismissed from his position as lecturer at the Imam Muhammad bin Saud University. In December 1990 several Saudi newspapers published condemnations of the religious scholars that had criticised the royal family in public. Ibn Baz’s equated their criticism to conspiracies

against Islam, and attacked those who “whisper secretly in their meetings and record their poison over cassettes distributed to the people, or those who make these allegations in public lectures at universities...This behaviour is against the will of God...lies, conspiracies against Islam and Muslims” (APS, 30 December 1991, p.15). The Interior Ministry subsequently issued a statement:

In order to protect society from their evil deeds, those who carried out actions with the aim of creating chaos have been arrested. At the forefront of these are Salman Bin Fahd al-Audah and Safar Bin Abd al-Rahman al-Hawali, who carried out many acts contrary to what a Muslim committed to society should do. The Senior Ulema Council studied the infringements by the said persons, which were among the gravest infringements by their like, and concluded that society was in need of protection from their mistakes if they did not refrain from their actions.<sup>48</sup>

In September 1994 Salman Al-Audah and Safar Al-Hawali were arrested, their imprisonment triggered off demonstrations in Al-Qasim which was followed by the arrest of many sympathisers. Indeed, one opposition group claimed: “Saudi authorities in a military-style crackdown have arrested more than 1,000 political activists, including clerics and university professors”.<sup>49</sup> At the end of June 1999 Salman Al-Audah and Safar Al-Hawali were released unconditionally.

The state-sponsored *ulama* in the past have endorsed and legitimised innovations and government policies, decisions that sometimes undermined their own religious authority. Their power often derives more from the king than from religious prestige, and as one author commentated, “their religious rulings do not always reflect knowledge of Islam so much as the desire to keep their jobs” (Nevo, 1998, p.42). Until the Gulf War the establishment *ulama* enjoyed widespread public support and could exert control over the majority of the Islamic reformists. However, during the Gulf War Ibn Baz came especially under criticism for sanctioning the presence of non-Muslim troops on holy Islamic soil. Asked by the king to look for precedents in Islamic law to provide justification for foreign intervention, Ibn Baz “turned a liability into a virtue by praising Fahd for fulfilling a duty substantiated by shariah law which instructs the ruler to seek assistance from those capable of providing it” (Dekmejian, 1994, p.638). Subsequently splits between the active Islamic reformists and the official *ulama* as well as schisms within the latter emerged.<sup>50</sup> This inevitably carries severe repercussions for the government, since part of the *ulama* might feel compelled not to align itself with the

regime too closely in critical situations in order not to lose the support of the religious constituency. Alexander Bligh suggested that the decline in the political power of the *ulama*, its relegation to the enforcement of moral conduct and supervision of education, could indicate that the state-employed *ulama* no longer represent the religious elements in the Saudi population and that this gap might produce a 'revival movement' in Saudi Arabia outside the control of the government. Already in the mid 1980s he observed an increasing tendency among the *ulama* to try and keep the Wahhabi movement alive, their 'survival impulse' has two dimensions: abandoning the alliance with the House of Saud when it no longer contributes to the well-being of the WahhABIyah and refraining from confrontations with the Saudi leaders on religious matters.<sup>51</sup> Ultimately, he contended, there can be no guarantee that when the politico-religious coalition is put to a test that the *ulama* will remain loyal, since their main concern is for the preservation of the Unitarian movement (Bligh, 1985, pp.48). Similarly Schechterman claimed: "[p]ersistent repetition of allegations of corruption... and acts that flow from them, may ultimately force the religious leadership to disassociate itself from the regime and become truly independent and a questioning force in Saudi society for the sake of its own survival" (Schechterman, 1986, p.4).

### **Forced into Exile - Opposition Abroad**

In May 1993 a group of religious scholars, lawyers and intellectuals, many of whom had signed the 'Memorandum of Advice', announced the formation of the Committee for the Defence of Legitimate Rights (CDLR). The organisation was set up "after the failure of all attempts to convince the Saudi authorities to release a number of detainees who have been held without trial and without clear reasons".<sup>52</sup> Muhammad al-Masa'ri, professor of Physics at the King Saud University became their spokesman and his father, Abdullah Ibn Sulayman al-Masa'ri, a former president of the Board of Grievances, became Chairman. Other founding members included a former member of the Supreme Council of the Ulama and an official member of the Department of Legal Opinion.<sup>53</sup>

The CDLR argues that the House of Saud is undermining its stability and legitimacy by co-opting or preventing the religious and social leaders from expressing their views. The royal family mishandles the religious and social leaders: on the one hand it imprisons many independent and acceptable clerics, thus cutting them off from their followers, on

the other hand, it has co-opted the official clergy under Sheikh Ibn Baz by using them to legitimise all “the crimes of the state and thereby stripping them of any public credibility” (THE GUARDIAN, 17 August 1993, p.8). Its main objectives are to “elucidate and assert the concept of human rights in Islam and eliminate the distortions created by the Saudi regime’s erroneous practices and severe abuses and massive violations of human rights” as well as to “educate the public...of their Islamic human rights”. The task of “eliminating injustice and supporting the oppressed” is considered a religious duty and “one of the best acts of righteousness”. The CDLR claims to abide “by the method of peaceful and constructive criticism and dissociates itself from all and any attempt to effect reform by force”.<sup>54</sup> Despite placing their struggle within the context of human rights, they clearly stress that they advocate ‘legitimate rights’ of individuals as laid down by the *shari’a* and distance themselves from the ‘alien’ universal concept of human rights.<sup>55</sup> The organisation does not see itself as a political party and has, as Madawi Al-Rasheed argued, adopted the language of reform rather than one of revolution in order to broaden its appeal (Al-Rasheed, 1996d, p.19).

The set up of the organisation marks a significant departure from the ‘politics by petition’ method and represented a direct challenge to the Supreme Council of Ulama, which immediately, and most likely under government pressure, issued a *fatwa* to ban the CDLR, arguing that “[t]here is no need for this committee because Saudi Arabia implements the Sharia which allows its citizens to lodge their complaints directly with the authorities” (APS, 12 May 1993, p.11). Sheikh Abdullah Al-Jibrin, initially a member of the CDLR, distanced himself from the organisation after it was banned, claiming: “I do not remember anything about this committee... [and only do so] after it had been announced on foreign radios and question had been raised about it...”.<sup>56</sup> He further maintained that the CDLR “should have made recommendations instead of issuing statements which may have revealed secrets or contained erroneous information”, and accused Masa’ri of not having a sound enough religious knowledge (APS, 5 October 1994, p.22).

King Fahd, in a speech on the occasion of the *hajj*, emphasised that: “[h]uman rights and man’s dignity are guaranteed. We will not tolerate, under any pretext and at any moment, that rights be ridiculed” (APS, 1 June 1993, p.13). On 13 May seven of the founding members were dismissed from their jobs at the university or government and



the spokesman of their organisation, Muhammad Al-Masa'ri, was briefly jailed but released in November 1993. He subsequently escaped to London where he claimed political asylum and set up the new headquarters of the organisation.

Operating from their London exile, the CDLR intensified its campaign against the House of Saud by publishing human rights violations and reports about the corruption and incompetence of the royal family. Their main publication is 'al-huquq' (rights) as well as the 'CDLR monitor' in English; the internet and the fax machine serve as the main mean to disseminate their message. The faxes were sent to leading government and business offices, universities, influential individuals, embassies and newsagencies and, in the absence of an open media, reportedly became quite popular within the country and the CDLR an important channel for critics of the Saudi regime. Perhaps the use of the international media and outside channels rather than their demands *per se* antagonised the authorities and led them to react in such a severe way. The response of the government and their open contestation of the CDLR's message may also indicate that the organisation was perceived as a real threat to the image of the Kingdom abroad but also inside. It thus indirectly represented a measure of success for the organisation.

According to Dr. Saad Al-Faqih, "difficulties and disharmony within CDLR over discipline and strategy issues, made it impossible for us to continue as one opposition group" (ARABIA UNVEILED, January 1997, p.5). Since the split in 1996, the CDLR has focused its attention more on global issues, campaigning against Western imperialism and Zionism. At the beginning of 1997 a British court declared Al-Masa'ri's bankruptcy and since then the group has been relatively quiet while its webpage is calling for donations for their fight against the "Saudi tyranny". In March 1996 Dr. Saad Al-Faqih formed a new movement, the Movement for Islamic Reform in Arabia (MIRA) in London, which advocates similar ideas to the CDLR. MIRA's publications and webpage focus more on the domestic Saudi scene and include a collection of articles about Saudi Arabia from various media reports, reports of international human rights groups and accounts of the history of dissent.<sup>57</sup> Its stated objectives are: "freedom of expression, freedom of assembly and the abolition of the Secret Police Units subverting political movements and activity. These reforms are a pre-condition for the political, judicial, economic and social reforms which need to take place" (ARABIA UNVEILED, January 1997, p.5). MIRA publications criticise extensively the economic

policies of the Al-Saud, its corruption and profligacy and carry many articles about economic hardship and poverty among Saudis and blame the government's mismanagement, the misappropriation of the resources and its oil policy for it.<sup>58</sup>

Criticism of the government was not only limited to the CDLR and MIRA. In 1994 Mohammed Khilewi, an ex-senior diplomat at the Saudi Arabian mission to the United Nations, filed for political asylum in the United States.<sup>59</sup> He claimed to have 14,000 documents proving human rights abuses, terrorism, corruption and the attempt of Saudi Arabia to procure nuclear weapons and maintained to be part of an underground movement of more than 75 dissidents, including "one ministerial official and more than five ambassadors, all well-educated people working with us....Human rights is a small goal compared with democracy. We are seeking to have a democracy and a civilised society" (FT, 11 August 1994, p.19). Khilewi was said to sympathise with the CDLR but no longer seems to be active.

Apart from C.A.C.S.A. and MIRA, the different critics and opposition groupings mentioned above, do not focus in their criticism of the government on the fiscal crisis as such. Economic policies rarely feature in their discourse, instead they target international forces, like the United States and the House of Saud's connection to it as well as the presence of foreign troops on 'holy Saudi soil'. C.A.C.S.A.'s publications contain a lot of information about the fiscal crisis of the Saudi state and include a mixture of well-researched, relatively objective publications but also many reports that seem to be based on rumours, speculations and that clearly lack objectivity. Its message is only accessible through the Internet and geared towards English speakers, hence access to it is limited to relatively few Saudis. The CDLR and MIRA also use the fax machine to distribute their pamphlets inside Saudi Arabia, yet it seems that their actual support on the ground is limited.<sup>60</sup>

A more radical group the 'Committee for Advice and Reform' (CAR)<sup>61</sup> was formed in London in April 1994 by Usama Bin Laden, a Saudi billionaire, and Khalid al-Fawwaz who became its representative in London. The organisation issued communiqués, sometimes in co-operation with the CDLR. In the 1980s Usama Bin Laden used to support the Afghan rebels in their fight against the Soviets (with the backing of the Saudi and the American government), he later moved to Sudan from where he was

expelled in 1996. In 1994 he was stripped of his Saudi citizenship and is now believed to operate from a base in Afghanistan. The CAR understood itself as an overarching Islamic organisation dedicated to defend *shari'a* rights in all aspects of life and “to speak the truth and make matters clear, wanting the nation to be righteous and rightly guided”.<sup>62</sup> Usama Bin Laden’s primary concern is the alliance of the Al-Saud with the ‘infidels’, which he considers “the most important issue of the present time. The land where the holy Koran was revealed is now occupied by the Jewish and Christian forces... It is incumbent upon all Moslems to wage a jihad against them (US forces) and evict them from the holy lands”.<sup>63</sup>

### **‘FROM THE FAX TO THE BOMB’?**

In November 1995 a bomb destroyed a training facility of the National Guard used by American personnel in Riyadh, followed by another bomb attack in June 1996 targeting a US military housing complex in al-Khobar. The bombings represented, in the view of one commentator: “a watershed by any standard, showing that the kingdom is as vulnerable as any other spot in the world and that the Saudi opposition has decided to ‘move from the fax to the bomb’” (MIDEAST MIRROR, 13 November 1995, p.9). From the end of 1994 onwards there had already been several warnings giving American and British forces until June 1995 to leave the Arabian peninsula, after which they would become ‘legitimate targets’. For instance, on 10 April 1995 the ‘Islamic Change Movement - the Jihadist Wing in the Arabia Peninsula’ issued a threat, followed by one in September 1995 by a group called ‘Brigades of Faith’.<sup>64</sup> Neither of the threats did receive much attention and no preventive action on part of the government seems to have followed.

The bomb attack of 13 November 1995 hit at the heart of Saudi security by targeting the National Guard, responsible for internal security, as well as the US military presence. The involvement of US personnel also assured that the incidence would receive maximum media coverage. As one journalist observed, the: “bombing was an important political and security development, but an even more important media event...it broke the barrier of silence”<sup>65</sup> covering the Saudi-American military relations. The Saudi authorities tried to play down the significance of the incidence, the press

condemned the attack as 'alien to Saudi society and values' and evaded any discussion of political motives. The Saudi Gazette, for example, praised Saudi Arabia as a "model of stability peace and security", negating that domestic grievances may have been behind the bomb attack "at a time when the government is leaving no stone unturned to help its population, the explosion comes as a rude shock".<sup>66</sup> Official reports also avoided mentioning that the target was used by US personnel, announcing simply that the explosion took place in a parking lot adjacent to residential buildings.

There has been much speculation about the perpetrators. Two groups claimed responsibility, the hitherto unknown group 'Tigers of the Gulf' and the 'Islamic Change Movement' (MIDEAST MIRROR, 14 November 1995, p.14). Some journalists speculated about a connection between the attack and power struggles within the House of Saud, interpreting the bombing as an attempt to discredit the National Guard and its commander Crown Prince Abdullah.<sup>67</sup> Other commentators speculated about an infiltration by militant sympathisers of the National Guard arguing that it is highly unlikely that the perpetrators could have entered into the compound and carry out the bomb attack without passing a security check. This raises serious questions about the state of security and loyalty of the National Guard. Following the incidence the government reportedly initiated a review and assessment of the competence and loyalty of the security forces.<sup>68</sup> On 15 November the Saudi newspaper 'Al-Bilad' was the first official Saudi media organ to mention that Saudis 'belonging to an insignificant minority' were behind the explosion.<sup>69</sup> Prior to the bomb attack some observers had already warned of the infiltration of the security service. In 1993 Helga Graham wrote: "the fundamentalists have penetrated every single government department without exception, from civil aviation to Saudi Airlines, from prisons to the Ministry of the Interior. Their cells are well-organised and linked to outside groups, even the Army... They want power and they have arms..." (Graham, 1993, p.6).<sup>70</sup>

The bombing was followed by large scale arrests of around one thousand suspects including many ex-Afghanistan fighters. At the beginning of 1996 the Saudi government arrested another four Saudi citizens in connection with the bombing. Prince Naif declared that: "[i]t is painful to us all that they belong to this beloved homeland, which is known for its...adherence to its religion and its cohesion" (MIDEAST MIRROR, 23 April 1996, p.18). In a televised statement four of them confessed to having received

weapons and explosives training, three in Afghanistan and one in Bosnia. They also confessed that they had been influenced by the exiled opposition groups, among them the CDLR and Bin Laden's group. The four were executed before the Americans were able to interrogate the suspects. Masa'ri, the spokesman for the CDLR, denied any link and condemned the bombing as an illegitimate action, but considered the target as legitimate and reiterated that his group only believes in non-violent means. Bin Laden also denied responsibility yet later stressed that: "[w]hat happened in the case of the Riyadh and al-Khobar bombings is laudable kind of terrorism, because it was against thieves... who came to plunder the resources of this nation and violate the most sacred of its holy places".<sup>71</sup> In a later interview he declared that "if someone can kill an American soldier, it is better than wasting his energy on other matters".<sup>72</sup>

On 25 June 1996 a bomb attack of a US military housing complex in al-Khobar, close to Dahrhan,<sup>73</sup> killed 19 American servicemen and injured over 400 Saudi and US citizens. Shortly after the al-Khobar bombing several Shi'ites from the Eastern Province were arrested as the government seemed to suspect the Saudi branch of Hizbollah to be behind the attack and initially hinted at Iranian involvement. The Wahhabi opposition groups, however, strongly denied the link and pointed at the arrest of six Saudi Sunnis shortly after the incident. Substantial differences over the investigations between the FBI team in charge of the case and the Saudi authorities emerged. In May 1998 Prince Naif, the Interior Minister, remarked for the first time that the al-Khobar bombing was carried out by Saudi nationals with no foreign involvement.<sup>74</sup> Since the incident the US embassies have issued several advisories to its citizens containing warnings of further bomb attacks: "the US continues to receive information from other sources which indicates planning for an attack against Americans on the Gulf" (Reuters, 14 June 1998).

In an attempt to balance the interests and demands of the different constituencies, the response of the regime to the Islamic challenge oscillates between co-option and, if the challenge is direct, repression. Particularly in the initial phase the authorities dealt with the challenge from a security perspective and employed a policy of negative reaction and suppression, rather than one which demonstrates initiative in addressing the underlying motivations of the opposition. One day before the bomb attack in Riyadh in November 1995 a security agreement was signed among the GCC states to jointly fight extremism, terrorism and drug smuggling. Prince Naif declared at the end of a GCC

interior minister's meeting in Manama that Riyadh would be prepared to respond to any call for assistance to ensure the security of Bahrain or any other GCC country. This was followed in April 1998 by an Arab security agreement.

In the longer term, the regime tries to co-opt, as the inclusion of former critics into the new *majlis* demonstrated, and to divide the different movements or it asks the *ulama* to condemn the opposition's activities as 'un-Islamic'. Nazih Ayubi described these tactics as follows:

Having defeated, disarticulated or persecuted social forces, political organisations and/or ideological orientations that represent a serious challenge to the regime, they then co-opt their members (individually or in divided segments if possible) into the regime's own politico-organisational set-up. Segmental incorporation is particularly useful as a defensive strategy when coercion alone cannot sustain control over groups with competing interests, aspirations or socio-cultural agendas (Ayubi, 1995, p.234).

As mentioned above, the Islamic conduct and fidelity of the family is crucial to its legitimacy and ultimately its survival. Confronted with the radicalism of the Islamists challenge, the monarchy is constrained to prove that it is more Islamic than its detractors. In a new quest for a strict Islamic image, geared towards placating the Islamic opponents, allocations for the construction of mosques increased and restrictive policies were reinforced, like the ban on women drivers and the use and import of satellite television, as mentioned in the previous chapter. Critics of the regime's policies are frequently portrayed as a 'threat to Islam' or are labelled as 'divisive' and a threat to the unity of the monarchy, like the above mentioned condemnation of Sheikh Salman al-Audah or a commentary broadcast on Saudi radio, "... honest sources have rightly said that the defamatory campaigns by some foreign media against the Kingdom of Saudi Arabia because it upholds the laws of the Islamic shari'a seek to harm Islam and its followers, because those who embark on these campaigns stand in the same trench as the enemies of Islam".<sup>75</sup> The Shi'a have also suffered from defamatory propaganda, which has only recently lessened. As Mamoun Fandy expressed it: "[t]he Saudi regime and state-controlled media construct and reconstruct the Shi'a image, portraying the community as a dangerous and heretical fifth column whose members are potential supporters of Iran's anti-Saudi policies. Thus defaming Shi'a Islam has been central to efforts to neutralize this allegedly subversive force" (Fandy, 1999, p.204).

To prove the strict adherence of the regime to the *shari'a* harmless activities of Christians and Shi'as are targeted, incidences of religious discrimination against them and infractions on their privacy by the Committee for the Propagation of Virtue and the Prohibition of Vice have increased in the wake of the Gulf War. In September 1992 a young Shi'a charged with apostasy and blasphemy was executed in al-Qatif despite his repentance.<sup>76</sup> For the first time, on 11 August 1995, the government ordered the execution of an opposition activist, Abdullah Abdel al-Hadhaif. He was accused of throwing acid on an intelligence officer, the possession of firearms and of 'fomenting' dissension by supporting and distributing the leaflets of the CDLR. The Saudi government branded him with rebellion and heresy, crimes punishable by death in Saudi Arabia, thus paving the way for capital punishment for political opponents. In the statement announcing the sentence, the authorities also cited the need to combat dissension and to maintain the security and stability of the state and referred to the CDLR as an organisation that: "strayed beyond the pale of Islam by sowing the seeds of dissension [*fitna*] when they declared their disobedience to the ruler of the nation to whom they had pledged loyalty and expressed their utter disregard for the Ulama, whom they accused of failing to perform their duty". Another nine suspected supporters of the CDLR were also convicted and sentenced to high prison terms.<sup>77</sup>

During the Gulf crisis the government transferred the religious police from the Eastern Province to the Western regions in order to avoid clashes with the US, French and British forces. For the first time in decades the *mutawwa'in* were reported to carry guns. The government became also more reluctant to take decisive action against the guardians of public morality, thus signs of popular resentment and opposition to the harassment of the religious police appeared, as reported in several articles.<sup>78</sup> However, reluctance to control the excesses could also be a strategy to create public revulsion against the Islamists (Dekmejian, 1994). The authorities also reorganised the religious establishment, in August 1993 the Ministry of Waqf and Hajj Affairs was divided into two ministries each headed by a non-cleric. Ibn Baz was appointed as Grand Mufti (a post previously abolished) with ministerial rank<sup>79</sup> and the supervision and responsibility of the Moral Police was given to the newly created Ministry of Islamic Affairs. The following year a Da'wa Council to enforce religious discipline was established under the umbrella of the Ministry of Islamic Affairs. The appointment of predominantly Western educated Saudis to the *majlis al-shura*, discussed in the previous chapter, represented

“a rebuff to the Islamist constituency” (Dekmejian, 1994, p.640), but apart from the appointment of the Shi’a member aroused little criticism. As already stated, perhaps the appointment of ex-Justice Minister Mohammed Ibn Jubair as speaker of the *majlis* and of Sheikh Abdullah Al Al-Shaikh as Minister of Justice, both prominent members of the *ulama*, placated the Islamic constituency. In 1994 a Supreme Council for Islamic affairs was established, according to the king in order: “deepen Saudi Arabia’s service of Islam” but most likely to dilute the authority of the Senior Council and to strengthen government influence over matters of religious interpretation (APS, 7 October 1994, p.23). In August 1995 King Fahd dismissed six of the country’s university chancellors and also replaced more than half of the Senior Council of Ulama. On 13 May 1999 Shaykh Bin Baz, Chairman of the Committee of Senior Ulama and Scientific Research and Issuing Fatwas, and Chairman of the Constituent Council of the Islamic World League died. Shaykh Abd al-Aziz Bin Abdullah Al-Shaykh, previously Ibn Baz’s deputy, became the new Grand Mufti. It remains to be seen to what extent he will be able to keep the *ulama* at bay and balance the divergent opinions and factions.

The Saudi authorities also cut the funds for Islamist movements abroad and in October 1994 established the Supreme Council for Islamic Affairs under the chairmanship of Prince Sultan, the defence minister, to administer all funds dedicated for Muslim organisations abroad. Nevertheless, the council can easily be bypassed by rich individuals wishing to contribute to the Islamic cause abroad. Furthermore new regulations were issued requiring the permission of the Ministry of Interior for the collection of money for Muslim philanthropic groups inside Saudi Arabia (Graham and Wilson, 1994, p.79). The government also launched an extensive global advertising campaign to improve its international image and to counter reports about its instability.

At the same time the government relaxed the control over Islamic currents in the Hijaz. Sayyid ‘Alawi al-Maliki, a leading member of the Maliki School of Law, previously denounced as a heretic and prevented from preaching, was allowed to preach again. This represented: “an unprecedented policy change... to promote Islamic diversity. By allowing Maliki to preach, the government was signalling the Saudi Islamists, as well as the religious establishment, that its traditional policy of supporting the Wahhabi monopoly of Islam in the kingdom could not be taken for granted” (Dekmejian, 1994, p.642). Madawi Al-Rasheed also observed that: “[g]iven the limitations of the Islamists



at the level of representation and regionalism, any serious inroads they may accomplish in the future lead one to conclude that a return to regionalism cannot be ruled out as a possibility... thus strengthening of Islamists may be paralleled by a reawakening of these latent forces" (Al-Rasheed, 1996d, p.22). The relaxation over the control of Hijazi Islam and the cultural reassertion of the Shi'a community, mentioned above, might represent first signs for these tendencies. They are also accompanied by the slow but gradual emergence of interest groups that might eventually develop into a more active civil society.

The regime will remain vulnerable to Islamic criticism as long as the opposition's demands reflect, even if only partially, grassroots complaints. With their call for accountability, social justice and political participation they can rally the support of the graduates of the religious universities which find it increasingly hard to get a job. In case of continuing economic problems, low oil revenues and the rising expectations and aspirations, the Islamic opposition may be able to reach out to previously non-political Saudis. The analysis of the discourse of the most prominent opposition figures and groupings has demonstrated that the fiscal crisis and the shortcomings of the Al-Saud's economic policy in remedying the situation do not yet feature prominently in their demands and criticism of the government. Instead, their main concern is the close alliance of the Al-Saud with the West and its corrupting moral influence. The Islamic challenge has escalated after the Kuwait crisis but so far has not coalesced into a broad-based political movement, it remains characterised by an amalgamation of different groups and individuals which still lack a wider representativeness of the whole population. The Islamic challenge also originates and is dominated mainly by Najdis. In order to pose a continuous and serious threat to the monarchy, this lack of representativeness of the current Islamic opposition would have to be surmounted. Until now the interests of the wealthy élites and that of many 'liberals' still remain tied to the Al-Saud. Furthermore, the interests of the traditional tribal groups are linked to the royal family through family relations and they continue to be rewarded and co-opted through the various distribution mechanisms (Al-Rasheed, 1996, pp.20). The Sunni opposition, as mentioned above, has not seriously sought to co-operate with the Shi'a mainly due to the lack of religious tolerance on part of the Sunni religious activists.<sup>80</sup>

The polarisation of interests between those advocating a partial secularisation of the socio-political life and those wanting to retreat to Islam has caught the ruling élite in a dilemma and has increased the significance of the mediating role of the government. Balancing the different constituency's interests has in the past been dependent on the availability of funds to acquiesce and co-opt the different groups, as seen in previous chapters. With the diminishing revenues the government will need to create other opportunities for a socio-political opening or, alternatively, it will feel compelled to resort to more coercive measures. Either option is fraught with danger to the hegemony of the Al-Saud. On the one hand, the power struggles accompanying the opening up of political space will significantly reduce its absolute hold of power and thus its influence on the direction of change. On the other hand, resistance to change might unleash further tensions and aggravate the polarisation of society that may manifest in an escalation of violence. At the moment the greatest danger to the House of Saud's hegemony seems not to emanate from the Islamic opposition groupings but from clinging onto the *status quo* and the failure to genuinely reform the hegemonic structure.

## NOTES

<sup>1</sup> For examples see Schechterman, 1986, Graham, 1993, Aburish, 1994 and Lacey, 1982 who cited an article: "the next coup is considered to be more likely in Saudi Arabia than elsewhere" ("Will reform save the Royal Family?", THE GUARDIAN, 13 March, 1963) and an article from the FT which placed the Saudi regime in the 1960s at the "top of the list of prospective candidates for liquidation" (FT, 5 December 1962).

<sup>2</sup> See Chapter 1 for a definition of the concept of civil society.

<sup>3</sup> Opposition to the Al-Saud regime prior to the creation of the state in 1932 is dealt with briefly in Chapters 2 and 3.

<sup>4</sup> The challenges posed by the Shi'a community are dealt with in a separate section from the rise of political Islam, as it is considered to represent a separate phenomena. As will be seen, in the historical context the Shi'a community's demands differ from the Sunni, Wahhabi opposition, and focus on religious and socio-economic discrimination. The Wahhabi Islamist movements are often opposed to the 'infidel' Shi'a and some have even advocated the killing of them.

<sup>5</sup> See Chapter 2 for more details on the historical background. For instance, the assassin of King Faisal was related to the Shammar tribe, which until the 1930s had fervently opposed the central authority under the House of Saud. Juhayman's revolt, discussed later on, was also partly motivated by his resentment of the marginalisation of tribes in the Saudi polity.

<sup>6</sup> Najran, Asir and Jizan became provinces of Saudi Arabia under the Taif accord of 1934, which stipulated that Asir and Najran should be under the control of the Saudis for forty years. Now, more than sixty years later, they are still under the control of the Saudis and the focus of a border dispute between Saudi Arabia and Yemen. See also Chapters 2 and 3 for regionally based opposition.

<sup>7</sup> Poem by Abdallah Hamid al-Hamid, who was arrested and released in 1993, according to Amnesty International, after having committed himself to withdraw from all political activity considered hostile to the Kingdom (Index on Censorship 4, 1996, p.47).

<sup>8</sup> Royal Decree No 12/2/23/2639 (Article XIX, 1991, p.5).

<sup>9</sup> The law was apparently never used as the basis for a conviction but the records of international human rights organisations demonstrates that political and religious dissidents often face severe punishment for their activities, similar or worse than those envisaged by the law (Article XIX, 1991, p.3).

<sup>10</sup> Between January 1990 and July 1997 Amnesty International recorded at least 560 executions, the real figure is likely to be much higher (AI, November 1997, p.22)

<sup>11</sup> Interview with Usama bin Laden given to 'al-Quds al-Arabi' published in MIDEAST MIRROR, 27 November 1996, p.13. It is unlikely that this invitation is still valid after the bomb attacks on the two US embassies in Africa in 1998 in which Bin Laden is suspected to have been involved.

<sup>12</sup> Helen Lackner stressed that the support King Saud gave to the movement and to the Liberal Princes was motivated mostly by his wish to reassert his position as ruler (Lackner, 1978, pp.90-99).

<sup>13</sup> For more detail see Lackner, 1978.

<sup>14</sup> The so-called 'Liberal Princes' were: Talal bin Abdul-Aziz, Fawwaz bin Abdul-Aziz, Badr bin Abdul-Aziz, Abdul-Muhsin bin Abdul-Aziz and their cousin Sa'ad. Talal's suggestions for reform included the freedom of expression and association and envisaged a restricted role for the king and a partially elected National Council.

<sup>15</sup> Also before the creation of the Kingdom of Saudi Arabia disloyal members of the House of Saud posed a serious threat to the emerging Saudi state. For further details see Lacey, 1982, and for a brief account of the struggle between King Saud and Prince Faisal and the subsequent abdication of King Saud see also Chapter 3.

<sup>16</sup> The extended Al-Saud family comprises an estimated 20,000 princes and princesses. The most important branches are: the Shudairi brothers (Fahd, Sultan, Abdul Rahman, Naif, Turki, Salman, Ahmad), the Bani Faisal (sons of the late King Faisal) and those associated with Crown Prince Abdullah.

<sup>17</sup> This council is often referred to as 'Royal Council' or '*Ahl al-Hal wa al-Aqd*' (meaning those who loosened and bind). The membership is restricted to mainly senior princes, members of the *ulama* and some tribal sheikhs.

<sup>18</sup> The power struggles are reported to centre, for instance, around issues of spending priorities or foreign policy. For instance in February 1997, 'al-Quds al-Arabi', reported a split within the royal

family over a prospective arms deal with the United States. Sultan allegedly supported the purchase of F-16s whereas Abdullah was opposed to further expenditure arguing that there are more pressing spending priorities within the country (MIDEAST MIRROR, 12 February 1997, pp.12). The C.A.C.S.A. mentioned that the "feuds amongst the House of Saud have reached a boiling point..." and pointed out that Prince Sultan has attempted a white coup during Crown Prince Abdullah's absence abroad (from their webpage <http://www.saudhouse.com>). Another split was reported to have occurred over the next UNESCO leadership. While some support the official Saudi candidate, Dr. Ghazi Al-Gosaibi, other members of the royal family openly support a rival candidate. For more details see EIU Country Report, 3<sup>rd</sup> quarter 1999, p.13.

<sup>19</sup> In 1957 under King Saud, his sons occupied the position of Minister of Defence (Fahd Ibn Saud), Musa'id Ibn Saud was in charge of the royal palace guards, Khalid Ibn Saud in command of the National Guard and Sa'ad Ibn Saud in command of the Private Guard. Fahd gave his son Faisal the post as President of Youth Welfare and placed other sons in strategic positions within the bureaucracy.

<sup>20</sup> The 'Shudairi Seven' are: Fahd (b.1921), Sultan (b.1924), Abdul-Rahman (b.1931), Naif (b.1933), Turki (1934), Salman (b.1936), Ahmad (b.1940). Prince Naif succeeded Fahd as Minister of Interior. Abdullah when he became Crown Prince refused to give up the command of the National Guard. Prior to this there seems to have been an understanding that the Crown Prince and deputy prime minister should not hold a cabinet portfolio (Abir, 1993, pp.98). For example, when Fahd became Crown Prince he gave up his post as Minister of Interior. Abdullah's refusal apparently caused disagreement with Fahd and the conflict could only be resolved with the mediation of King Hassan II of Morocco (Wilson and Graham, 1994, p.158).

<sup>21</sup> See Chapter 5.

<sup>22</sup> King Fahd was born 1921, Abdullah in 1923, Bandar 1923, Musa'id 1923, Sultan 1924, Abdul-Muhsin in 1925, Mish'al in 1926, Mit'ab in 1928, Abdul-Rahman and Talal in 1931, Mishari in 1932, Badr, Naif and Nawwaf in 1933, Turki in 1934, Fawwaz in 1934, Abdullah in 1935, Salman in 1936... The youngest, Prince Hamud, was born in 1947 (Lees, 1980).

<sup>23</sup> From <http://www.saudhouse.com> (webpage of C.A.C.S.A.)

<sup>24</sup> For figures on the strength of Saudi military forces and defence expenditure see Chapter 4 and Statistical Appendix. Saudi Arabia has a total area of 2,15 million square km, 2,510 km of coastline and 448 km of border with Iraq, 742 km with Jordan, 222 km with Kuwait, 676 km with Oman, 586 km with the UAE, 40 km with Qatar and 1,458 with Yemen and across the Red Sea Sudan and across the Persian Gulf Iran (Cordesman, 1997, p.3).

<sup>25</sup> The shortage of skilled Najdis eventually necessitated the increased recruitment of Hijazis.

<sup>26</sup> For more examples of coup attempts within the army see Lackner, 1978, Lacey, 1982 and Aburish, 1994, pp.184.

<sup>27</sup> It is very likely that many coup attempts were never made public. In 1981 military salaries doubled and benefits increased, while Cordesman argued that the rise was likely to be a pre-emptive measure (Cordesman, 1993, pp. 242) it could as well have been preceded by unrest or rumours of discontent.

<sup>28</sup> For details about the organisational structure, equipment, etc. of the National Guard see Chapter 8 in Cordesman, 1997.

<sup>29</sup> *Tahwid* implies that no person or object can possess divine traits thus nothing can mediate between a human being and God. Any use of such intermediaries is considered *shirk* (polytheism or idolatry). For more details see Nevo, 1998, pp.37.

<sup>30</sup> Goldberg, 1986, Buchan, 1982 and Abir, 1988. There are also several thousand Shi'a in the Hijaz and Asir.

<sup>31</sup> Public celebration of Shi'a ceremonies were officially prohibited.

<sup>32</sup> For more details see Abir, 1993, pp.85.

<sup>33</sup> See for instance King Fahd's speech in Saudi Gazette, 27 July 1988.

<sup>34</sup> Monthly magazine that was published by the exiled Shi'a opposition in London from 1991 to 1994. Before the publication of 'Al-Jazira al-Arabiyya' the main publication of the Shi'a Reform Movement was 'al-Thawra al-Islamiyya' (The Islamic Revolution) whose articles were much more 'revolutionary' and radical. The Shi'a Reform Movement is headed by Sheikh Hassan al-Saffar.

<sup>35</sup> (AI, 1993, p.16). The report also mentions several other *fatwas* concerning the Shi'a, including a *fatwa* stating that no Shi'a is permitted to marry a Sunni woman.

<sup>36</sup> Address of King Fahd on Saudi TV 20 December 1992 from SWB ME 1570 A15, 22 December 1992.

<sup>37</sup> For a more detailed discussion of this issue see Al-Rasheed, 1996d, Piscatori, 1984 and Al-Yassini, 1985.

<sup>38</sup> First Pamphlet of Juhayman in 1978 from Buchan, 1982, p.122.

<sup>39</sup> SWB ME 1569 A/11 21 December 1992 from Saudi Press Agency 19 December 1992.

<sup>40</sup> It is interesting to note that Islamic University of Medina was headed by Sheikh Ibn Baz, since the late 1960s. Juhayman himself was a student of Ibn Baz but later left the university and kept preaching. Ibn Baz, according to Juhayman's pamphlets, sympathised with some of Juhayman's ideas (Paul, 1980, p.4).

<sup>41</sup> He was discharged from the National Guard in 1973.

<sup>42</sup> The insurgents announced the arrival of the Mahdi, Juhayman's brother-in-law, Mohammed bin Abdullah al-Quraishi, when they took over the mosque. For more details and the exploitation of the Saudi authorities of this fact in order to denounce the insurgents see Kechichian, 1990.

<sup>43</sup> The *fatwa* did not as usual contain any Quranic verse but simply spoke of 'necessity'. The government issued the following statement: "[i]t is necessary in a situation like this that ulama clarify the Islamic ruling on the matter so that the people of this country and elsewhere may be aware of the correct standpoint on it. The Council of Senior Ulama approves, therefore, of the steps taken by the ruler..." (Fandy, 1999, p.37 from Official Publication of the Royal Embassy of Saudi Arabia in Washington, Fall 1990, p.3).

<sup>44</sup> See Chapter 4 for more details on problem of unemployment.

<sup>45</sup> On 2 December 1992 the government announced that seven members are no longer able to carry out their work for health reasons. These members are: Shaykh Ibrahim Bin Muhammad Bin Ibrahim Al-Shaykh, Shaykh Sulayman Bin Ubayd, Shaykh Abd al-Aziz Bin Salih, Shaykh Abd al-Razzaq Afifi, Shaykh Abdullah Khayyat, Shaykh Abd al-Majid Hasan and Shaykh Salih Bin Ghusun from SPA quoted in SWB 5 December 1992 ME/1556 A/12.

<sup>46</sup> From <http://www.miraserve.com>

<sup>47</sup> Suspension order of 1 April 1991 issued by the Governor of Qasim No.4/1172 (Article XIX, 1991, p.36).

<sup>48</sup> Statement No 2-951 dated 3 Rabi al-Thani (19 September 1993) from SWB ME/2112 MED/8 28 September 1994.

<sup>49</sup> From CDLR quoted in SWB 20 September 1994 ME/2105 MED 18.

<sup>50</sup> In a personal interview conducted on 31 June 1999 in London, Dr. Saad al-Faqih contended that there are three main groupings within the state-sponsored *ulama*. Those that are pro-government, those who supported Ibn Baz and Bin Uthaimin who do not confront the regime directly, and a third group that supports the new trend but does not dare to oppose Ibn Baz. The death of Ibn Baz and his replacement by Abdul-Aziz al-Shaikh might lead to a change of the orientation of the third group.

<sup>51</sup> This 'survival impulse' finds its justification in Abdul Wahhab's writings as McMillan has argued, "Ibn Abdul Wahhab held that temporal authority is legitimate only if it conforms to the divine law and brings civil order. Obeying a ruler who fails to meet this standard is a form of polytheism, in that (1) it implies reverence for the ruler rather than as God's deputy; (2) it means accepting un-Islamic (and therefore anti-Islamic) innovation; and (3) because all human activities are forms of worship un-Islamic worship and ipso facto heretical". Therefore according to Abdul Wahhab "subjects have a positive duty to disobey a ruler once the ulama identify him as un-Islamic" (McMillan, 1992, p. 60).

<sup>52</sup> Liberty, an organisation based in London working for the promotion of human rights in Muslim countries, announced the creation of the organisation on 7 May 1993. According to Liberty, Shaikh Ibrahim Al-Dibyan, a religious figure from Al-Qassim was detained after making critical remarks about a visit of President Bush in Kuwait. Another two were detained for two months (APS, 12 May 1993, p.11).

<sup>53</sup> The other founding members are the university professors Abdullah Bin Al-Ahmad, Abdullah Bin Hamad Al-Tuwayjiri, Hamad Al-Sulayfih, and Abdullah Al-Jibrin, a civil servant and Suleiman Al-Rushudi, a lawyer. Al-Jibrin and al-Masa'ri were already signatories of the 'Memorandum of Advice' (APS, 12 May 1993, p. 11).

<sup>54</sup> See Introduction to CDLR on its website <http://www.ummah.org.uk/cdlr>

<sup>55</sup> The CDLR in Arabic is called 'lajnat ad-difa' an al-huquq al-shari'a', literally the 'Committee for the Defence of Shari'a Rights'.

<sup>56</sup> From Saudi Press Agency 25 May 1993 from SWB 27 May 1993 ME/1699 A/3.

<sup>57</sup> ARABIA UNVEILED is the monthly newsletter published by MIRA. The webpage is: <http://www.miraserve.com>.

<sup>58</sup> These publications include, for instance, a report "Saudi Arabia: Financial Crisis and the Price of Oil" or "Saudi Arabia: An Economy in Crisis" (both available on the MIRA website).

<sup>59</sup> Khilewi was later granted political asylum and the spokeswomen for the State Department said, in a rare open criticism of Saudi Arabia, "[t]he United States does have serious concerns about the human rights situation in Saudi Arabia" (APS, 5 October 1994, p.22).

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<sup>60</sup> Assessment based on several personal interviews conducted with Saudis.

<sup>61</sup> In the literature the organisation is also sometimes referred to as 'Advice and Reformation Committee'.

<sup>62</sup> From an interview with Usama bin Laden published in 'al-Quds al-Arabi' (MIDEAST MIRROR, 27 November 1996, p.13).

<sup>63</sup> Reuters, 27 May 1998 from an interview with Usama Bin Laden broadcasted on ABC news.

<sup>64</sup> Also sometimes referred to as 'Battalions of the Faithful'.

<sup>65</sup> From 'as-Safir' newspaper, Beirut quoted in MIDEAST MIRROR, 14 November 1995.

<sup>66</sup> MIDEAST MIRROR, 14 November 1995, pp.14-15 quote from Saudi Gazette. Similarly the editor of 'al-Okaz' mentioned "...the vain attempt to affect our secure and cohesive reality".

<sup>67</sup> MIDEAST MIRROR, 14 November 1995 from editor in chief, Ahmad Al-Houni of 'al-Arab' newspaper, London. Masa'ri also hinted at that possibility (SWB, 20 November 1995, ME/2465 MED/23). The Iraqi TV alleged that a group called 'Combatant Partisans of God Organisation' (munazzamat ansar allah al-muqatilah) was involved (SWB ME 2461 MED 2, 15 November 1995).

<sup>68</sup> From al-Quds al-Arabi (MIDEAST MIRROR, 21 November 1995, p. 13)

<sup>69</sup> SWB 16 November ME/2462 MED/1.

<sup>70</sup> A Channel Four documentary 'Dispatches', broadcasted on 20 February 1997, by Gwynne Roberts shows a clandestinely filmed scene of an army base. The easy accessibility of the base to the filmers demonstrates the laxity of the security. On 20 October 1995 a bomb attack in a mosque in Asir killed 8 people. The Saudi authorities claimed that the dispute was non-political and that it arose over the issue of land. However, the suspect blew himself up after a gunfight with the security forces. The Minister of Interior reaffirmed that the "Quba crime in Bishah was definitely not an organized crime, but a crime committed by an individual" (SWB ME/2462 MED/2, 16 Nov 1995). This incidence while not necessarily politically motivated, indicates the presence of weapons in the country (MIDEAST MIRROR, 13 November 1995, p.11). Also in March 1996 a car originating from Lebanon and carrying explosives was discovered when crossing the border into Saudi Arabia.

<sup>71</sup> From 'al-Quds al-Arabi' (MIDEAST MIRROR, 27 November 1996, p.12).

<sup>72</sup> Interview with Gwynne Roberts.

<sup>73</sup> Dahrhan hosts the headquarters of Saudi Aramco, around 3,000 US servicemen are stationed at the near-by King Abdul Aziz airbase from which they observe the no-fly zone over Southern Iraq as part of the mission 'Southern Watch'.

<sup>74</sup> MENA news agency, Cairo, 22 May 1998, 0729 GMT. The announcement was made during a visit to Kuwait to a Kuwaiti newspaper.

<sup>75</sup> Commentary by Husayn al-Askari from Saudi radio 25 August 1995 SWB, 29 August 1995, ME/2394 MED/16

<sup>76</sup> Amnesty International, September 1993.

<sup>77</sup> Human Rights Watch/Middle East, Press Release 17 August 1995 "8/17/95 Saudi Arabia Executes an Islamic Opponent". Al-Hudhaif was first sentenced to 20 years imprisonment but reportedly after the protest of the Ministry of Interior, which regarded the sentence as too lenient, the sentence was commuted into capital punishment.

<sup>78</sup> THE GUARDIAN, 16 August 1993, p.7 and several issues of APS like 12 December 1990, p.15.

<sup>79</sup> He also retained the position as Chairman of the Council of Senior Ulama and the General Presidency of Scientific Research, Call, 'Ifta and Islamic Guidance.

<sup>80</sup> Masa'ri suggested in late 1996 a co-operation with the mainstream Shi'a opposition and to form a broadbased opposition movement (MIDEAST MIRROR, 13 November 1996, pp.15). However, no actions in this direction seem to have taken place.

## CONCLUSION

In January 1999 Saudi Arabia celebrated its one hundredth anniversary,<sup>1</sup> commemorating in grand style the recapture of Riyadh by Ibn Saud. The event marked the ascendancy of the third Saudi realm which culminated in the proclamation of the Kingdom of Saudi Arabia in 1932. While undergoing a profound socio-economic transformation, the Saudi state has, since its inception, faced a multitude of internal and external challenges and upheavals and also had to deal with economic difficulties. At many critical historical conjunctures observers have predicted the fall of the monarchical regime, often perceived as an 'anachronism' in the contemporary world. As one member of the Saudi royal family remarked, "[i]f you have looked at the emergencies and dislocations this country has been through since the 1950s - and you didn't know the outcome - you would surely have concluded that [the Saudi state] had not survived" and he added that the "challenge is not over, in some respects it is just beginning" (FT, 14 November 1995).

At the beginning of the economic downturn one analyst noted: "[u]nfortunately it seems that very damaging crises are the only factor which concentrate the mind, foster the political will and instil a sense of discipline. These crises may not occur in 1985 but they cast a very dark shadow on the years ahead" (Mabro, 1986, p.3). A temporary economic downturn or the early stages of a fiscal crisis can provide valuable opportunities to revise policy priorities, on the economic as well as on the political level, and a chance to re-negotiate the 'pact' between state and society in order to gradually change the structural constraints of the rentier nature of the state. The move 'beyond rentierism', the retreat of the state from its allocative nature and the development of its extractive capabilities, are a question of survival and are likely to become a more pressing issue within the next decades.

Compared to the challenges Saudi Arabia is likely to face in the coming decades, the fiscal crisis of the 1980s and 1990s may soon seem relatively minor. As mentioned in the previous chapters, the pressures on the treasury are likely to continue or even augment in case oil revenues remain relatively low, an eventual full scale re-entering of Iraq to the oil market and with so far limited other means to generate domestic income. At the same time an increasing population, rising unemployment among the young generation and social mobility closure compounded by high expectations render a cut back in

government expenditure difficult and potentially risky. Additionally the country is living with a rapidly depleting finite asset as Hossein Askari has reminded us: "...[t]o the extent that the current generation depletes oil, without compensation through productive investments, it is effectively living off the assets of all future generations and reducing the standard of living of future generations in its own favor" (Askari, 1990, pp.16-17).

As stressed before, in many aspects the Saudi case is unique, for instance in terms of its non-colonial past, its tribal and religious heritage and the impact of the articulation of the modes of production. Nevertheless, many observations made in the thesis are relevant for the study of other rentier-type states. Many other oil producing and exporting states, not only in the Gulf but also countries like Venezuela, Mexico or Ecuador have been hard hit by low oil prices and have been forced to severely cut their capital expenditure. The conceptual framework utilised for this study could perhaps provide some useful insights for the study of the impact of a fiscal crisis on other rentier-type states. The extent of the impact of the fiscal crisis on the political realm, the intermittent variables that determine the crisis path as well as the responses of the various societal actors will vary from case to case, depending on the particularities of the hegemonic structure of the various countries and the extent of their dependency on rent.

Developments in the region, particularly in the GCC countries, which all face similar pressures and difficulties to varying degrees, have their repercussions on the Saudi political scene, thus it is particularly interesting to look at the responses of these states to the decline in oil revenues. The demands voiced by the populations in the Gulf Arab countries for more inclusion in the decision-making process and for accountability especially in the wake of the Kuwait crisis, seem now a common phenomenon.<sup>2</sup> However, the strategies adopted by the governments have varied. Politically, Kuwait has leaned towards a strategy of inclusion, at least for most of its citizens, and reinstituted its National Assembly, while Bahrain, confronted with widespread political unrest has chosen a more exclusionary strategy and violent repression. On the economic level, some governments have commenced to initiate structural reforms, for instance Qatar and Oman have introduced personal income taxes in 1994 (Krimly, 1999) and Bahrain as well as several of the sheikhdoms of the United Arab Emirates have been quite successful in developing their non-oil economy.



A core argument of this study has been that in an era of fiscal stringency, a retreat, even a partial retreat, of the state from its allocative functions necessitates a re-negotiation of the state's hegemonic strategies and a re-definition of its 'pact' with society. So far the Saudi government's response to the fiscal crisis – to finance the budget deficits rather than to transform the economic structure – has allowed it to postpone this re-definition of its 'pact' with society. For many citizens the crisis seems to have had a more conjunctural impact, most of the effects on the population were cushioned by the state through the drawing down of foreign assets and domestic borrowing, real belt-tightening has not yet commenced. Despite reluctant initial official acknowledgements that the days of abundance are over and will not return (see introduction), public statements still stress that the government will continue to provide the same level of services to its citizens.<sup>3</sup> The recovery of oil prices as has happened since March 1999, albeit often only short-lived, gives the illusion that the fiscal crisis represents only a passing phenomenon and encourages a false sense of security.<sup>4</sup> Each time pressures on the treasury ease, there is a period of complacency over the urgency of the situation. As a result, economic reforms, even minor ones, are often slowed down or withdrawn. While the fiscal priorities and the official discourse of the government may give the impression that the crisis is of a conjunctural nature, the root causes of the crisis are structural, contingent on the allocative nature of the state and its dependence on the export of one single commodity.

It is a futile exercise to speculate about the future stability of Saudi Arabia, many domestic, regional and global factors will determine developments in the Gulf countries. However, what we can comment on is how different variables can accelerate, slow down or avert a political crisis. Utilising a political economy approach, this study has outlined and analysed the most important factors that influence the economic-political relationship and the intermittent variables that act to facilitate or postpone a translation of the fiscal crisis into a political crisis. The following section will briefly summarise the main findings:

The concept of articulation of modes of production contributes to a better understanding of the economic-political relationship in rentier states and *ipso facto* to a better understanding of the dynamics of fiscal crisis. As Chapter 2 highlighted, the Saudi state and its political structures were formed before the advent of oil and influenced by an articulation of the two modes of production prevalent at the time: the tributary-

mercantile and the pastoral-nomadic mode of production. From 1950 onwards the influx of oil revenues began to complement and then gradually to replace the traditional modes of production. While the economic foundations of the pre-oil era modes of production gradually lost in significance with the growing importance of an oil based economy, some of the socio-political correlates of the pre-oil era modes of production still have an influence on the contemporary state structure and current socio-political alliances. For instance, socio-political alliances forged during the pre-oil era and patterns of patronage and clientelism still feature prominently in appointments to important government positions. Despite the disappearance of the traditional economic structure, urbanisation, the expansion of the bureaucratic state apparatus, etc., tribal affiliations retain their significance. Emphasising continuity in their legitimating discourse the ruling family used its religious heritage and credentials and its tribal ethos for legitimating purposes, which, combined with the percolation of wealth, mitigated the impact of the rapid socio-economic changes and enabled them to maintain their hegemony.

James O'Connor contended that the welfare state is caught between two contradictory functions: the maintenance of the accumulation process as well as legitimation. Economic policies thus often tend to reflect more a concern for social harmony and legitimation than an emphasis on criteria of economic efficiency and development. While this policy mitigates class conflict, it intensifies the appropriation of state power by particularistic interests and thus engenders the emergence of powerful constituencies which demand a continuous allocation and strain the country's resources. Once these resources are no longer sufficient to satisfy these demands, the state is prone to various crisis tendencies. Rentier states exhibit similar features, in the case of Saudi Arabia during the oil era powerful constituencies emerged and pre-oil era socio-political alliances were strengthened. Chapter 3 demonstrated that the Saudi state, as principal recipient of oil rent, became distributor and regulator of the country's resources and mediator between the various economic sectors. Hence it was able to assume a pivotal role in the economic planning process and in determining the direction and pace of the country's socio-economic development. The distribution patterns of the government shaped the socio-economic stratification and social mobility patterns while the individual's socio-economic position came to be largely dependent on his or her access to and influence on the state apparatus. The allocative nature of the state and the absence of taxation inhibited the emergence of a class-based socio-economic structure and the

crystallisation of political interest groups and alternative sources of power. While authority became more and more concentrated in the hands of the ruling family, civil society groupings remained weak, constrained by narrow margins of political space and dependent on the state.

While the state, in the absence of the need to tax its citizens, is often expected to dispose over considerable autonomy and to be immune to certain popular demands on the basis of the principle of 'no representation without taxation' the responses of the various societal forces during the period of declining revenues, discussed in Chapters 4 and 5, demonstrated that the rentier state's autonomy is not an immutable variable and that the intervention of the state in the economic process is often the precursor for the control by strategically important groups or 'corps'. These groups, albeit dependent on the state's largesse, derive their influence and wealth from their direct access to the ruling élite. The examination of whose consensus and support the ruling élite seeks to elicit during the fiscal crisis has shown that there is an increasing coalescence of interests between the 'rich' and the 'powerful'. As already discussed, Claus Offe had observed that corporatist arrangements in late capitalist states tend to favour the most strategic groups, in the context of Saudi Arabia these strategic groups are often remnants of political alliances forged in the pre-oil era. These political alliances provide the strategic groups with direct access to the royal family (*al-hukumah* based access) often complemented by access to the bureaucracy through high positions in the governmental apparatus (*al-dawlah* based access). In Chapter 1 it has been argued that those groupings or individuals that dispose over both types of access can enhance their influence and bargaining power. Chapters 4 and 5 have described how the business community was very successful in lobbying the government to withdraw economic policies perceived to be against their interests. While the regime seeks the consensus of these strategic groups, this strategy exacerbates income inequalities but also engenders an exclusionary dynamic in the political sphere for all those lacking connections to the ruling élite. This undermines the current system of interest articulation and the consensual foundations of the regime. In the long term it creates conditions for the crystallisation of class consciousness thus could ultimately prepare the way for a political crisis.

The analysis of the fiscal priorities of the Saudi state after the drop in oil revenues in the mid 1980s illustrated that the introduction of structural economic reforms, necessitating

at least a partial retreat of the state from its allocative function, is feared to have reverberations in the socio-political realm. Conscious that these reverberations could gain in magnitude, antagonise main political allies and also fearing a loss of its control functions, the House of Saud has been reluctant in introducing such reforms. Although the government has initiated a few economic reform measures such as cancelling projects, cutting subsidies, enhancing efficiency and encouraging the private sector to take over more responsibilities, these measures have not been able to compensate for the shortfall of oil revenues. The huge financial assets accumulated during the oil boom era and large scale domestic borrowing have allowed the state to postpone more far-reaching structural reforms. With the prolongment of the fiscal crisis and the drawing down of assets the state is, however, losing its capacity to postpone reforms and gradually has to give up its role as mediator between the different economic sectors and the international economy. Kiren Chaudhry remarked that as a consequence Saudi citizens become more and more exposed to the international market forces and the volatile oil price fluctuations (Chaudhry, 1997). This development seriously limits the state's capacity in ameliorating the effects of low oil prices on the population and reduces its margin of manoeuvre in dealing with the crisis and in averting demands for political change.

The majority of Saudis are most likely not going to face poverty or absolute deprivation, but what matters is the increasing exposure of wealth and power asymmetries as well as the level of expectations of particularly the younger generation which is based on what the older generation used to have. This is aggravated by the perception of the extravagant excesses of the ruling élite while the rest of the population has to bear the main burden of the economic downturn. This makes the all-pervasive state apparatus and the perceived nepotism and corruption of the ruling élite easier to pinpoint as the root cause of one's own economic difficulties than external market forces which, to a great extent, determine the price of oil.

To avert demands for political change from escalating into a political crisis the Saudi regime seems to have two options: it can opt for an inclusionary strategy, both on the political and the economic level, and thereby reinforce the consensual basis of its hegemonic rule, or, alternatively, it can continue its exclusionary practices and resort to coercion. It has been argued that a crisis occurs once the coercive aspect of hegemonic rule predominates, nevertheless a crisis does not necessarily imply that the overthrow of

a regime is imminent. As detailed in the Chapter 1, Antonio Gramsci argued that an 'organic' or structural crisis can last for decades, in which incurable structural contradictions reveal themselves and eventually 'reach maturity' gradually reducing the regime's capacity to reproduce itself and reducing its options in charting a path through the crisis. In the Saudi case this situation may endure for a long time, especially if oil revenues do not drop again and remain at the current level of around \$20 per barrel.

In case the era of fiscal stringency with decreasing material benefits to distribute for an increasing population continues, the extent to which the regime is able to generate consent through various practices will ultimately determine its success in retaining hegemony. Consent can be generated in various ways: through the institutionalisation of accountability, power sharing as well as by relying on ideological mechanisms that propagate and inculcate a normative system of values congruent with those of the regime and by relying on religious discourse, credentials and legitimation. Nevertheless, to rely on religious legitimation can, as Chapter 6 showed, prove to be a double-edged sword as it invites the regime's opponents to use Islamic principles as a standard for judgement.

Currently the Islamic opposition groupings and individuals represent the most vocal critics of the Al-Saud. Following the Kuwait crisis discontent with government policies was initially voiced only by a few individuals, later it manifested itself in petitions to the king from the 'liberal' and Islamic constituency and then crystallised into more organised forms of opposition groupings. The examination of the discourse of the opposition has elucidated that their criticism focuses predominantly on the religious legitimacy and conduct of the regime as well as on its alliance with the 'corrupt' and 'infidel' West rather than on economic issues. Apart from the internet based Committee Against Corruption in Saudi Arabia (C.A.C.S.A.) and the Movement of Islamic Reform in Arabia (MIRA), the fiscal crisis and economic policies do not feature prominently in their discourse.

Regimes often initiate political reforms to defuse political demands, to 'share the blame' and to give the impression of responding to popular demands. The Saudi regime responded to the demands with the introduction of a Basic Law, a *majlis al-shura*, and regional administrative devolution. The new mechanisms, elaborated upon in Chapter 5, do not alter the way interests are represented as these continue to be predominantly

mediated on an individual basis while decision-making remains restricted to senior members of the House of Saud. The reforms are thus unlikely to provide for 'inclusion' of the general population in the decision-making process and it is not clear to what extent they have been able or will be able to generate consent. So far there is little evidence that the royal family is prepared to cede control of its role and to change the *status quo*. At the moment this unwillingness and resistance to change and inclusion poses perhaps the most threatening danger to the survival of the Al-Saud's hegemony.

Inclusion, an increased political space for civil society and popular political participation can, however, prove to be risky for the regime. Chapter 1 has shown that civil society potentially has a dual nature, it is, on the one hand, the forum for eliciting consent for a particular regime, on the other hand, a forum for the mobilisation of opposing interests and the establishment of a counter hegemonic bloc. Which element will predominate in the case of Saudi Arabia remains to be seen. Until now most of the dissenting voices focus on good governance and issues of accountability and do not call for an overthrow of the current regime. While the visions of reform diverge significantly, for instance regarding the position of women in society, both the Islamic and the liberal petitions converge in their demand for accountability and stress their loyalty to the Al-Saud regime and the *shari'a*.

Whether a regime is able to retain its hegemony in an enduring fiscal crisis ultimately depends on the strength, social backing and agenda of an alternative hegemonic bloc as the individual's attitude towards the current regime is also conditioned by the availability of an alternative. The current Saudi Islamic opposition is unlikely to represent such a counter hegemonic bloc. Many of the most vocal critics of government policies in the early 1990s have been co-opted by, for instance offering them a seat in the *majlis al-shura* or other incentives, other critics have been imprisoned and the Shi'a opposition has opted for dialogue with the government. The remaining and most extreme opposition groupings or figures are divided, lack representativeness and a clear and cohesive programme, are based abroad and do not seem to have much organisational structure or large-scale popular backing inside the Kingdom. Regional and international forces, particularly the active support of the current ruling élite by international key players, also limit the chances and success of a counter hegemonic bloc to emerge and to replace the current regime.

It has been argued that one of the prerequisites for an escalation of a political crisis is the development of the individual's political consciousness. Jürgen Habermas made a forceful argument that a precondition for the crystallisation of political awareness and its translation into action, is that the individual feels threatened in his or her existence. He added that this can only occur in case social integration is no longer possible, i.e. if the traditions that have provided for social integration erode. Economic changes or a fiscal crisis do not act alone in eroding the existing order's capacity to reproduce itself. Although the issue of the impact of modernisation was not the central topic of this study, it was noted that the process of modernisation, the impact of the bureaucratisation of society, social mobility, globalised communication and an increased integration into the world economy have all contributed to an erosion of the traditional foundations of the Saudi state. These traditional bases have been central forces of the success of the House of Saud in dealing with the challenges of the past century. Socio-economic developments, such as the marginalisation of the role of the tribal leadership through urbanisation or sedentarisation and the impact of an increasing integration into the global economy have undermined these foundations. These processes all lead to a gradual diminution of the consensual foundations of the normative structures of the regime, a process which is being accelerated by wealth discrepancies and power inequalities, as well as by the erosion of the state's material resources. Ultimately, all such forces reduce the regime's immunity to domestic pressures and can contribute to the erosion of the system's ability to reproduce itself. As some of the royals are already aware, the real challenges are indeed not over but just beginning.

## NOTES

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<sup>1</sup> Based on the Islamic calendar which is eleven days per annum shorter than the Gregorian calendar.

<sup>2</sup> See Gause, 1994 for more details on developments in other GCC states after the Kuwait crisis.

<sup>3</sup> For instance, just after the announcement of the 1999 budget in January, Prince Faysal Bin Fahd stated that the government will continue its spending on social security, health, education and welfare at the same level (SWB, 12 January 1999, MEW/0571 WME/14).

<sup>4</sup> Concerted efforts of OPEC and non-OPEC producers to cut overall production has led to a recovery of oil prices which relaxed the strains on government spending and is likely to reduce the budget deficit/GDP ratio to 3 to 4 per cent. Saudi Arabia committed itself to cut production by 585,000 b/d amounting to 34 per cent of the overall OPEC cuts of 1.7 million b/d (EIU Country Report, 3<sup>rd</sup> quarter 1999, pp.8).



## STATISTICAL APPENDIX

It should be noted that for some of the following tables data from various sources, exhibiting sometimes significant discrepancies, was used. Many government statistics change their accounting format between the periodic reports or are sometimes not available for certain years, making a comparative analysis difficult. Where possible, the most recent available data was listed. The calculations for the per capita distribution are based on official population figures, derived from the 1992 population census. As mentioned in Chapters 3 and 4, these figures are likely to be overstated.

**Table I      CONVERSION RATE FOR SAUDI RIYAL TO US DOLLAR**

1970	4.5000	1975	3.5176	1980	3.3267	1985	3.6450
1971	4.4868	1976	3.5300	1981	3.4150	since 1986	3.7450
1972	4.1448	1977	3.5251	1982	3.4415		
1973	3.7014	1978	3.3996	1983	3.4950		
1974	3.5500	1979	3.3608	1984	3.5750		

Source: Ministry of Planning, Achievements of Development Plans 1970-1997

**Table II      TRENDS IN AVERAGE PRICE OF ARABIAN LIGHT CRUDE AND AVERAGE DAILY CRUDE OIL PRODUCTION (1970-1997)**

Year	S/ barrel	SR/ barrel	Change (%)	Daily Average Crude Oil Production (million b)	Year	S/ barrel	SR/ barrel	Change (%)	Daily Average Crude Oil Production (million b)
1970	1.30	5.85	—	3.80	1986	13.73	51.42	-50.1	4.78
1971	1.65	7.40	26.9	4.77	1987	17.23	64.53	25.5	4.12
1972	1.90	7.88	15.2	6.02	1988	13.40	50.18	-22.2	5.16
1973	2.70	9.99	42.1	7.60	1989	16.21	60.71	21.0	5.06
1974	9.76	34.65	261.5	8.48	1990	20.82	77.97	28.4	6.41
1975	10.72	37.71	9.8	7.08	1991	17.43	65.28	-16.3	8.12
1976	11.51	40.63	7.4	8.58	1992	17.94	67.19	2.9	8.33
1977	12.40	43.71	7.7	9.20	1993	15.68	58.72	-12.6	8.05
1978	12.70	43.17	2.4	8.30	1994	15.39	57.64	-1.8	8.05
1979	17.26	58.00	35.9	9.53	1995	16.73	62.65	8.7	8.02
1980	28.67	95.38	66.1	9.90	1996	19.85	74.34	18.6	8.10
1981	34.23	116.89	19.4	9.81	1997	18.76	70.26	-5.5	8.01
1982	31.74	109.23	-7.3	6.48	1998				
1983	28.77	100.55	-9.4	4.54	1999				
1984	28.06	100.31	-2.5	4.08					
1985	27.54	100.38	-1.9	3.17					

Source: SAMA 34<sup>th</sup> Annual Report, p.15/p.313 (calculations for SR based on conversion table above)  
- Official prices up to 1980, thereafter spot prices

**Table III GDP AND GNP, OIL EXPORTS AND PER CAPITA DISTRIBUTION (1968-1995)**

Year	GDP (billion SR)	GDP (constant prices 1990)	GNP (billion SR)	Population (millions)	Petroleum Exports (billion SR)	GDP per capita (SR)	GDP per capita (constant SR)	GNP per capita (SR)	Petroleum Export per capita (SR)
1968	14.66	98.50	11.45	5.86	9.09	2,502	16,809	1,954	1,600
1969	15.98	105.19	12.73	6.03	9.48	2,650	17,444	2,111	1,572
1970	17.40	121.26	13.57	6.20	10.88	2,806	19,558	2,189	1,755
1971	28.26	160.04	20.59	6.38	16.66	4,429	25,085	3,227	2,611
1972	40.55	191.63	30.15	6.57	22.71	6,172	19,167	4,589	3,457
1973	99.32	220.53	82.35	6.76	28.92	14,692	32,623	12,182	4,278
1974	139.60	221.11	125.40	6.97	126.46	20,029	31,723	17,991	18,143
1975	164.53	240.19	165.39	7.25	104.05	22,694	33,130	22,812	14,352
1976	205.06	276.48	207.72	7.62	135.91	26,911	36,283	27,260	17,836
1977	225.40	292.92	223.62	8.06	153.47	27,965	36,342	27,744	19,041
1978	249.54	312.51	242.90	8.49	127.11	29,392	36,809	28,610	14,972
1979	385.81	344.10	381.06	8.93	197.02	43,204	38,533	42,672	22,063
1980	520.59	371.36	508.42	9.37	337.40	55,559	39,633	54,260	36,009
1981	524.72	377.50	522.90	9.81	377.30	53,488	38,481	53,303	38,461
1982	415.23	336.93	433.39	10.25	251.16	40,510	32,871	42,282	24,503
1983	372.02	336.54	392.46	11.17	147.89	33,305	30,129	35,135	13,240
1984	351.40	329.09	372.34	11.98	120.73	29,332	27,470	31,080	10,078
1985	313.94	315.75	327.53	12.65	n/a	24,817	24,960	25,892	n/a
1986	271.09	333.32	289.67	13.36	66.88	20,291	24,949	21,682	5,006
1987	275.45	328.72	292.84	13.61	76.50	20,239	24,153	21,517	5,621
1988	285.15	353.59	305.08	14.02	75.67	20,339	25,220	21,760	5,397
1989	310.82	354.23	329.52	14.43	90.24	21,540	24,548	22,836	6,254
1990	391.99	391.99	398.52	14.87	150.28	26,361	26,361	26,800	10,106
1991	442.04	424.88	437.16	16.54	163.49	26,726	25,688	26,430	9,885
1992	461.40	436.74	452.78	16.96	174.24	27,205	25,751	26,697	10,274
1993	443.84	433.96	436.66	17.35	144.64	25,582	25,012	25,168	8,337
1994	450.03	436.18	435.99	17.76	142.83	25,340	24,560	24,549	8,042
1995	469.12	438.23	n/a	18.25	n/a	25,705	24,013	n/a	n/a

Source: IMF Statistical Yearbook, 1997, 1998

**Table IV SOURCES OF REVENUE (1970-1988)**

(million SR)

YEAR	TOTAL	Direct Taxes	Indirect Taxes	Transport Tax (1)	Service Taxes	Others (2)	Zakat
		Income Tax on Companies and Individuals	Customs Duties				
1970	6,380	99.5	292.0	57.5	140.0	255.5	6.5
1971	10,782	100.5	313.5	57.5	134.6	259.5	8.0
1972	13,200	105.0	315.0	56.5	204.1	350.4	11.0
1973	22,810	156.0	330.0	58.3	258.0	816.5	12.8
1974	98,247	216.0	400.0	75.3	321.2	2,909.5	16.0
1975	95,847	190.0	375.0	0.3	318.0	7,964.1	27.0
1976	110,935	350.0	500.0	0.3	437.7	10,103.1	34.5
1977	146,493	671.5	1,000.2	10.5	548.3	13,675.0	97.5
1978	130,000	1,400.0	1,400.0	12.4	663.6	11,266.1	120.0
1979	160,000	no distinction (3)	1,512.3	no(4)	1,011.0	892.2	175.0
1980	261,516	no distinction	2,037.4	no	1,283.5	1,071.6	115.0
1981	340,000	no distinction	2,542.4	no	1,656.2	11,852.9	200.0
1982	313,400	no distinction	2,650.0	no	2,901.0	36,992.0	278.0
1983	225,000	no distinction	5,300.0	no	7,012.0	47,792.0	400.0
1984	214,100	no distinction	4,500.0	no	5,550.0	38,850.0	700.0
1985	200,000	no distinction	6,604.0	no	5,610.0	32,236.0	1,300.0
1986	200,000	no distinction	6,604.0	no	5,610.0	32,236.0	1,300.0
1987	117,380	no distinction	3,800.0	no	4,866.0	23,207.0	870.0
1988	105,300	no distinction	6,500.0	400.0	6,745.0	17,230.0	900.0

Source: Ministry of Planning, Statistical Yearbook, various issues

(1) Includes cigarettes and stamp duty for several years, (2) Papers of value, government sales, rents, instalments drawn from development fund and reserve jihad tax

(3) From 1979 direct taxes (income tax on companies and individuals) is no longer distinguished as a separate category in the Statistical Yearbooks.

(4) From 1979 until 1987 no transport tax is listed in the Statistical Yearbooks.

Note: no detailed data of domestic sources of revenue available for years after 1988

**Table V GROSS DOMESTIC PRODUCT BY SECTOR (1970-1997)**

At current prices (constant 1969/70 prices in brackets) in million SR

YEAR	GDP	Oil Sector	Non-Oil Sector Private	Non-Oil Sector Government	Non-Oil Sector TOTAL
1970	22,582 (19,582)	14,329 (11,542)	5,841 (5,747)	2,412 (2,293)	8,253 (8,040)
1971	27,858 (22,621)	18,674 (14,014)	6,308 (6,127)	2,876 (2,480)	9,184 (8,607)
1972	40,086 (27,133)	28,684 (17,413)	7,765 (6,926)	3,637 (2,794)	11,402 (9,720)
1973	98,840 (31,246)	83,410 (20,063)	10,133 (7,833)	5,297 (3,350)	15,430 (11,183)
1974	139,225 (31,539)	111,101 (18,903)	18,253 (8,439)	9,871 (4,197)	28,124 (12,636)
1975	163,893 (34,250)	116,570 (19,112)	28,382 (9,938)	18,941 (5,200)	47,323 (15,138)
1976	203,943 (39,318)	136,249 (21,626)	40,219 (11,819)	27,475 (5,873)	67,694 (17,692)
1977	223,818 (41,765)	133,935 (21,513)	50,884 (13,588)	38,999 (6,664)	89,883 (20,252)
1978	247,622 (44,521)	140,384 (21,999)	62,335 (14,979)	45,903 (7,543)	107,238 (22,522)
1979	383,589 (49,053)	252,705 (23,869)	74,559 (16,876)	56,325 (8,308)	130,884 (25,184)
1980	517,994 (52,971)	360,741 (24,653)	88,520 (18,864)	68,733 (9,454)	157,253 (28,318)
1981	522,176 (53,886)	337,884 (22,383)	102,874 (21,280)	81,418 (10,223)	184,292 (31,503)
1982	411,797 (48,030)	206,360 (14,309)	117,445 (23,619)	87,992 (10,102)	205,437 (33,721)
1983	368,399 (47,995)	157,989 (13,033)	127,816 (25,001)	82,594 (9,961)	210,410 (34,962)
1984	347,424 (46,842)	132,555 (11,453)	129,998 (26,699)	84,871 (8,690)	214,869 (35,389)
1985	310,031 (44,936)	96,958 (9,286)	130,981 (26,993)	82,092 (8,657)	213,073 (35,650)
1986	267,846 (47,511)	67,461 (13,032)	123,686 (26,041)	76,699 (8,438)	200,385 (34,479)
1987	272,000 (46,830)	70,443 (11,524)	122,967 (26,280)	78,590 (9,026)	201,557 (35,306)
1988	276,908 (49,923)	69,115 (13,931)	126,812 (26,907)	80,981 (9,085)	207,793 (35,992)
1989	304,083 (50,167)	90,749 (13,629)	130,045 (27,283)	83,289 (9,255)	213,334 (36,538)
1990	384,993 (55,565)	146,460 (16,671)	139,008 (28,310)	99,525 (10,584)	238,533 (38,894)
1991	435,037 (60,284)	167,525 (20,618)	148,450 (28,864)	119,062 (10,802)	267,512 (39,666)
1992	452,298 (61,917)	186,524 (22,031)	156,365 (29,335)	109,409 (10,551)	265,774 (39,886)
1993	434,565 (61,511)	158,364 (21,258)	162,760 (29,131)	113,441 (11,122)	276,201 (40,253)
1994	441,736 (61,841)	157,722 (21,299)	168,398 (29,396)	115,616 (11,146)	284,014 (40,542)
1995	463,202 (62,005)	168,488 (21,356)	171,815 (29,533)	122,899 (11,116)	294,714 (40,649)
1996	502,458 (62,893)	195,479 (21,803)	177,787 (29,830)	129,192 (11,260)	306,979 (41,090)
1997	538,313 (64,104)	214,756 (22,309)	185,154 (30,359)	138,403 (11,436)	323,557 (41,795)

Source: 34<sup>th</sup> SAMA report 1998, p.277. GDP and its components are measured at producer's values and exclude import duties.

In some years slight discrepancies exist for GDP figures used previously, figures for 1996 are estimates and for 1997 preliminary forecasts.

**Table VI CONSUMPTION - PRIVATE AND GOVERNMENT CONSUMPTION AND CONSUMPTION - GDP RATIO**

YEAR	TOTAL (billion SR)	per capita (SR)	GOVERNMENT (billion SR)	per capita (SR)	PRIVATE (billion SR)	Consumption/ GDP (current)	Gov. Consumption/ GDP	Priv. Consumption/ GDP
1965	4.56	843	1.65	305	2.91	44%	16%	28%
1966	4.95	892	1.92	346	3.03	41%	16%	25%
1967	6.67	1,170	2.67	468	4.00	51%	20%	30%
1968	7.34	1,253	2.75	469	4.59	50%	19%	31%
1969	8.39	1,391	3.03	502	5.36	53%	19%	34%
1970	9.28	1,497	3.42	552	5.86	53%	20%	34%
1971	11.21	1,757	4.29	672	6.92	40%	15%	24%
1972	13.24	2,015	5.34	813	7.90	33%	13%	19%
1973	19.69	2,913	9.86	1,459	9.83	20%	10%	10%
1974	33.95	4,871	15.91	2,283	18.04	24%	11%	13%
1975	52.78	7,280	28.88	3,983	23.90	32%	18%	15%
1976	75.40	9,895	41.03	5,385	34.37	37%	20%	17%
1977	101.64	12,610	47.03	5,835	54.61	45%	21%	24%
1978	140.51	16,550	71.90	8,469	68.61	56%	29%	27%
1979	179.95	20,151	77.56	8,685	102.39	47%	20%	27%
1980	196.83	21,006	81.92	8,743	114.91	38%	16%	22%
1981	255.04	25,998	128.53	13,102	126.51	49%	24%	24%
1982	278.14	27,136	126.85	12,376	151.29	67%	31%	36%
1983	278.70	24,901	121.33	10,862	157.37	75%	33%	42%
1984	280.41	23,407	121.06	10,105	159.35	80%	34%	45%
1985	272.98	21,578	114.39	9,043	158.59	87%	36%	51%
1986	246.52	18,452	106.37	7,962	140.15	91%	39%	52%
1987	243.25	17,873	107.71	7,914	135.54	88%	39%	49%
1988	236.82	16,892	97.42	6,949	139.40	83%	34%	49%
1989	241.59	16,742	96.56	6,692	145.03	78%	31%	47%
1990	276.00	18,561	120.13	8,079	155.87	70%	31%	40%
1991	333.75	20,240	165.00	9,976	168.75	76%	37%	38%
1992	332.89	19,445	148.97	8,784	183.92	72%	32%	40%
1993	321.69	18,790	127.78	7,365	193.91	72%	29%	44%
1994	314.39	18,017	119.56	6,732	194.83	70%	27%	43%
1995	320.95	17,950	122.85	6,732	198.10	68%	26%	42%

Source: IMF Statistical Yearbook 1995, 1996, 1997, 1998. Total Consumption = Government Consumption + Private Consumption, percentages are rounded

**Table VII BUDGETS<sup>1</sup> (1973 - 1998)**

(billion SR )

	1973/74	1981/82	1982/83	1983/84	1984/85	1985/86 (1)	1986 (2)	1987	1988	1989 (2)
<b>Revenue</b>	<b>41.7</b>	<b>368.0</b>	<b>246.3</b>	<b>206.4</b>	<b>171.5</b>	<b>133.6</b>	<b>76.5</b>	<b>103.8</b>	<b>84.6</b>	<b>114.6</b>
of which oil	39.6	328.6	186.6	186.0	119.0	88.4	42.5	67.4	48.4	75.9
<b>Expenditure</b>	<b>18.6</b>	<b>284.6</b>	<b>243.8</b>	<b>230.2</b>	<b>216.4</b>	<b>184.0</b>	<b>137.4</b>	<b>173.5</b>	<b>134.8</b>	<b>149.5</b>
current	8.5	82.8	85.2		128.7	119.9	98.9	...	111.4	118.5
project	9.5	145.7	128.2		87.7	61.6	38.5	...	23.4	26.5
SCI (3)	0.6	31.0	17.0							
<b>Balance</b>	<b>23.1</b>	<b>83.4</b>	<b>2.5</b>	<b>-23.8</b>	<b>-44.9</b>	<b>-50.4</b>	<b>-60.9</b>	<b>-69.7</b>	<b>-50.3</b>	<b>-34.9</b>
% of GDP				6.4	12.8	16.1	22.5	25.3	17.6	11.2

Source: Ministry of Finance and National Economy and EIU Country Profile 1986-87, p.26, for ratio of deficit to GDP, SAMMA 34<sup>th</sup> Annual Report, p.125

(1) year until 3 March, (2) year from 10 March until 31 December, (3) Special Credit Institutions. Figures are rounded to billion thus might not add up

	1990/91	1992	1993	1994	1995	1996	1997	1998
<b>Total Revenue</b>	<b>316.6</b>	<b>169.6</b>	<b>141.4</b>	<b>129.0</b>	<b>146.5</b>	<b>177.0</b>	<b>206.0</b>	<b>143.0</b>
of which oil	246.3	128.8	106.0	95.5	105.7			
non-oil	70.3	40.9	35.5	33.5	40.8			
investment income	19.4	9.0	8.4	6.0	4.8			
fees and charges	18.5	10.7	9.1	10.1	18.9			
<b>Total Expenditure</b>	<b>457.5</b>	<b>211.3</b>	<b>187.9</b>	<b>171.1</b>	<b>173.9</b>	<b>194.0</b>	<b>221.0</b>	<b>189.0</b>
current	287.5	179.0	157.8	147.1	148.8			
wages	140.1	74.5	76.4	87.4	86.2			
supplies& services	48.7	46.5	29.7	22.1	19.5			
subsidies	18.7	11.3	10.4	4.4	6.2			
interest	17.2	14.9	15.7	15.3	19.5			
operation& maintenance	45.2	28.0	23.9	17.4	17.1			
capital project	58.6	32.3	30.1	24.0	25.2			
Emergency	111.4							
<b>Balance</b>	<b>-140.8</b>	<b>-41.7</b>	<b>-46.4</b>	<b>-42.1</b>	<b>-27.4</b>	<b>-17.0</b>	<b>-15</b>	<b>-46</b>
% of GDP	-17.2	-9.2	-10.7	-9.4	-5.8	-3.3	-2.9	-9.3

Source: EIU, Country Profile, various issues, Ministry of Finance and National Economy, SAMMA Annual Report

<sup>1</sup> In 1986 Saudi Arabia changed to the Gregorian calendar for fiscal planning. Prior to that date the Saudi budget was outlined in 12 hijri months ending the last day of Jumad (sixth month of hijra calendar).

**Table VIII ANNUAL GOVERNMENT BUDGET ESTIMATES (1980-1998)**

(million SR)

SECTOR	1980/81	1981/82	1982/83	1983/84	1984/85	1986/87	1987/88	1988/89	1989-1991	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98
<b>REVENUES</b>																
OIL	333,968	270,579	164,496	164,500	154,250	74,183	73,525			117,693	121,703	86,933	101,461	99,606	129,444	136,800
OTHER	6,032	42,821	60,504	49,600	45,750	32,743	31,775			33,307	47,447	33,067	33,539	31,894	34,556	41,200
<b>TOTAL</b>	<b>340,000</b>	<b>313,400</b>	<b>225,000</b>	<b>214,100</b>	<b>200,000</b>	<b>106,926</b>	<b>105,300</b>			<b>151,000</b>	<b>169,150</b>	<b>120,000</b>	<b>135,000</b>	<b>131,500</b>	<b>164,000</b>	<b>178,000</b>
<b>EXPENDITURES:</b>																
HUMAN RESOURCE DEVELOPMENT	26,248	31,864	27,736	30,413	24,533	23,689	23,388	24,004	56,392	31,855	32,121	29,226	26,912	27,536	41,595	45,498
TRANSPORT & COMMUNICATIONS	35,343	32,533	24,950	22,175	14,497	10,904	9,493	8,516	17,420	8,452	8,197	6,855	6,199	6,310	6,890	8,517
ECONOMIC RESOURCE DEVELOPMENT	22,679	22,045	13,202	12,533	9,081	6,615	5,888	5,039	9,184	4,615	5,063	4,284	3,855	4,544	4,733	5,820
HEALTH & SOCIAL DEVELOPMENT	13,716	17,010	13,591	16,134	12,892	11,094	10,806	10,634	24,492	13,534	13,626	11,259	10,161	10,110	14,366	16,390
INFRASTRUCTURE DEVELOPMENT	14,126	11,705	9,582	9,833	6,924	4,299	3,555	2,807	4,912	2,090	2,078	1,580	1,395	1,356	1,588	2,160
MUNICIPAL SERVICES	26,292	26,224	19,070	17,063	11,890	8,110	7,017	5,430	11,882	5,922	6,121	5,224	4,880	4,893	5,445	6,546
DEFENCE & SECURITY	82,533	92,889	75,565	79,892	63,956	54,226	50,080	47,812	122,666	57,601	61,692	53,549	49,501	50,025	67,975	78,231
PUBLIC ADMINISTRATION	43,113	44,586	47,218	43,928	38,584	30,974	25,058	31,345	100,480	49,176	58,171	40,530	39,706	37,953	30,836	25,067
OTHER GOVERNMENT SPENDING	24,850	23,382	20,000	17,500	9,300	3,590	590		2,123	648	714	523	476	415	439	500
LENDING INSTITUTIONS																
LOCAL SUBSIDIES	9,100	11,162	9,086	10,529	8,343	6,145	5,325	4,873	10,050	7,107	9,167	6,970	6,915	6,859	7,133	7,271
<b>TOTAL</b>	<b>298,000</b>	<b>313,400</b>	<b>260,000</b>	<b>260,000</b>	<b>200,000</b>	<b>159,646</b>	<b>141,200</b>	<b>140,460</b>	<b>359,601</b>	<b>181,000</b>	<b>196,950</b>	<b>160,000</b>	<b>150,000</b>	<b>150,000</b>	<b>181,000</b>	<b>196,000</b>

Source: SAMA 34<sup>th</sup> Annual Report, pp.306/307

**Table IX PUBLIC SECTOR EXPENDITURE - WAGES, DEFENCE, EDUCATION AND SOCIAL SECURITY AND SUBSIDIES**

YEAR	Expenditure on Wages (million SR)	per capita (million SR)	Expenditure on Defence (million SR)	per capita (million SR)	Expenditure on Education	per capita (SR)	Expenditure on Social Security (1)	per capita (SR)	Expenditure on Subsidies (million SR)(3)	per capita (SR)
1970	1,791.0	288.87	7,447	1,201	1,150	180.25			17.0	3
1971	2,537.2	397.68			1,591	242.16				
1972	3,122.8	475.31			2,233	330.33				
1973	3,583.4	530.09			3,760	539.45				
1974	5,101.1	731.87			12,943	1,785.24	357.5	51.29	821.4	117.85
1975	9,344.2	1,288.86	35,784	4,936	13,977	1,834.25				
1976	9,039.3	1,186.26			15,049	1,867.12				
1977	17,110.9	2,122.94			15,155	1,785.04				
1978	21,425.6	2,523.63	35,934	4,232	17,396	1,948.04	1,053.8	118.00	3,916.4	438.57
1979	23,004.3	2,576.07	50,093	5,609	21,294	2,272.57				
1980	32,219.9	3,438.62	68,899	7,353	23,690	2,414.88				
1981	41,127.6	4,192.42	83,326	8,494	29,741	2,901.56				
1982	52,807.0	5,151.90	94,118	9,182	26,044	2,331.60				
1983	51,680.7	4,626.74	76,614	6,859	28,654	2,391.82				
1984	53,720.1	4,484.15	81,060	6,766	23,032	1,820.71				
1985	50,474.9	3,990.11	64,491	5,098	18,625	1,394.09	1,518.0	126.71	12,087.3	1,008.96
1986	50,474.9	3,778.06			22,429	1,647.98	1,510.6	119.42	9,924.2	784.52
1987	55,652.2	4,089.07	65,414	4,806	22,240	1,586.31	(2)1,384.4	103.62	9,320.9	697.67
1988	56,287.9	4,014.83	54,093	3,858	22,505	1,559.60	1,427.3	104.87	10,597.4	778.65
1989	58,275.9	4,038.52	50,539	3,502	24,584	1,653.26	1,395.7	99.55	12,880.5	918.72
1990	62,484.5	4,202.05	90,416	6,080	29,201	1,770.83	1,379.7	95.61	7,827.1	542.42
1991	62,484.5	3,789.24	132,715	8,048	29,594	1,759.45	1,315.4	88.46	8,296.9	557.96
1992	72,940.3	4,336.52	54,434	3,236	30,342	1,772.31	1,322.7	79.97	8,975.9	542.68
1993	76,963.7	4,495.54	61,691	3,603	27,822	1,594.38	1,333.2	78.61	8,757.4	516.36
1994	67,712.7	3,880.38	52,119	2,987			2,526.4	145.61	9,680.2	557.94
1995			49,490	2,768			2,695.2	151.76	9,891.7	556.97
1996			66,399				2,572.7	140.97	6,525.8	357.58
							2,693.3		6,099.1	

(1) Includes relief assistance and regular assistance (2) Ten months fiscal period (3) Government Subsidies include Agricultural Subsidies, Food, Electricity, Social Security Source: Population figures from International Financial Statistics Yearbook, IMF, 1997; Defence Expenditure from Military Balance, various issues (SR amount based on calculation with conversion rates from above); Education Ministry of Finance and National Economy, Statistical Yearbook, various issues; Figures for Subsidies from Ministry of Planning, Achievements of Development Plans (1970-1997)



**Table X CAPITAL ACCOUNT (1971- 1997)**

(million SR) YEAR	Direct Investment	Portfolio Investment	Other Investment Assets	Other Investment Liabilities	TOTAL
1971	-111	-7	-198	18	-299
1972	34	-31	-1,047	12	-1,033
1973	-626	-283	-715	22	-1,603
1974	-3,732	-5,101	-3,918	115	-12,637
1975	1,865	-9,923	3,551	-819	-5,327
1976	-397	-9,457	-292	-487	-10,633
1977	783	-8,260	-1,696	-122	-9,295
1978	556	2,248	-7,801	509	-4,488
1979	-1,271	-1,021	-8,096	427	-9,972
1980	-3,192	-22,007	-12,871	505	-37,566
1981	6,498	-32,808	-3,725	-24	-30,059
1982	11,128	-11,487	-8,620	-904	-9,883
1983	4,944	7,531	2,628	240	15,343
1984	4,850	13,413	-1,674	332	16,921
1985	491	8,415	2,653	663	12,222
1986	967	3,463	-1,310	1,056	4,176
1987	-1,175	6,151	4,713	2,724	12,413
1988	-328	3,060	1,957	1,132	5,821
1989	-654	-1,786	6,903	1,567	6,030
1990	1,864	-3,342	1,437	-1,183	-1,224
1991	160	471	27,562	-598	27,595
1992	-79	-6,500	18,446	208	12,075
1993	1,369	8,213	6,885	2,296	18,763
1994	350	-2,527	12,022	497	10,341
1995	-1,877	4,025	4,253	142	6,542
1996	-1,129	-10,169	9,115	-275	-2,458
1997	2,575	-7,358	3,208	1,973	398

Source: IMF, International Financial Statistics Yearbook, 1997, 1998

**Table XI DEFENCE EXPENDITURE (1965-1997)**

(current prices in brackets)

YEAR	Defence Expenditure (\$million at 1980 prices)	per capita	percentage of GDP
1965	612		5.7
1970	1,655		10.0
1975	10,173 (6,771)	(1,153)	15.9
1978	10,570		14.9
1979	14,905		19.2
1980	20,711		17.9
1981	24,400	2,534	15.9
1982	27,348		17.7
1983	(21,921)	2,104	18.2
1984	(22,674)	2,096	20.9
1985	17,693 (1985 prices)	1,527 (1985 prices)	19.6
1986	n/a		
1987	17,467 (1985 prices)	1,375	22.7
1988	14,444	1,103	
1989	13,495	1,533	15.4
1990	24,143	2,238	23.3
1991	35,438	3,285	32.5
1992	14,535	1,371	11.8
1993	16,473 (1993 prices)	1,339	13.2
1994	13,917	1,109	11.2
1995	13,215 (1995 prices)	699 (1995 prices)	10.6
1996	17,730 (1997 prices)	1,075 (1997 prices)	12.7
1997	18,151	1,071	12.4

Source: THE MILITARY BALANCE, various issues

- 1990 and 1991 data includes estimates of Gulf War costs and contributions

- In case figures in different issues vary the latest available data is used

- For defence expenditure in Saudi Riyals see Table IX

**Table XII ARMED FORCES AND NATIONAL GUARD (1970-1999)**

YEAR	ARMED FORCES		NATIONAL GUARD		PARA-MILITARY FORCES		FOREIGN FORCES
	Total (active)	Army	Navy	Air Force + Defence	Total (active)	Tribal levies	
1970/71		30,000	1,000	5,000		24,000	
1975/76	47,000	40,000	1,500	5,500		16,000	
1980/81	47,000	31,000	1,500	14,500		20,000	
1982/83		35,000	2,200	15,000		25,000	
1985/86	52,500	35,000	3,500	14,000	10,000	15,000	
1987/88	63,500	45,000	3,500	15,000	10,000	25,000	
					reserve: 15,000		
1991/92	76,500	45,000	9,500	18,000	35,000	20,000	
			+1,500 marines	+4,000			
1992/93	102,000	73,000	11,000	18,000	55,000	20,000	National Guard 10,500
				+4,000			
1993/94	101,000	68,000	11,000	18,000	57,000	20,000	
			+1,500 marines	+4,000			
1994/95	104,000	70,000	12,000	18,000	57,000	20,000	15,500
			(incl. 1,500 marines)	+4,000			
1995/96	105,500	70,000	13,500	18,000	57,000	20,000	15,500
			(incl. 3,000 marines)	+4,000			(2)
1996/97	105,500	70,000	13,500	18,000	57,000	20,000	15,500
			(incl. 3,000 marines)	+4,000			(2)
1997/98	105,500	70,000	13,500	18,000	57,000	20,000	15,500
			(incl. 3,000 marines)	+4,000			
1998/99	105,500	70,000	13,500	18,000	57,000	20,000	15,500
			(incl. 3,000 marines)	+4,000			active
							(1)

Source: The Military Balance, various issues

(1) Peninsular Shield Force includes: France 130, UK 200, US 5000

(2) Frontier Force: 10,500 Coast Guard 4,500 Special Security Force 500 and Civil Defence Administration Units

**Table XIII PRIVATE AND GOVERNMENT SECTOR - WORKERS AND NUMBER OF ESTABLISHMENTS**

	PRIVATE SECTOR			GOVERNMENT SECTOR		
	Establishments Number	Change	Workers Number	Establishments Number	Change	Workers Number
1973	592	-	115,178	470	-	30,202
1974	749	157	179,535	488	18	47,364
1975	1,417	668	300,058	517	29	60,946
1976	1,816	399	396,251	541	24	90,775
76/77	2,385	569	510,692	561	20	106,925
77/78	3,217	832	862,419	583	22	163,353
78/79	4,460	1,243	1 155,997	623	40	189,924
79/80	5,472	1,012	1 529,076	647	24	244,613
80/81	6,447	975	1 722,672	729	82	261,179
81/82	8,992	2,545	1 994,019	1,020	291	281,820
82/83	10,723	1,731	2 524,395	1,199	179	305,762
83/84	11,746	1,023	3 001,146	1,324	125	333,526
84/85	12,020	274	3 261,078	1,367	43	355,005
85/86	12,174	154	3 458,603	1,337	- 30	370,114
86/87	11,926	- 248	3 551,441	1,353	16	381,900
87/88	11,970	44	3 579,008	1,313	- 40	386,701
88/89	12,046	76	3 209,993	1,325	12	308,055
89/90	12,006	- 40	2 973,019	1,326	1	293,587
90/91	12,131	125	2 813,743	1,290	- 36	294,972
91/92	14,269	2,138	2 840,581	1,307	17	299,863
92/93	15,487	1,218	2 188,486	1,329	22	306,695
93/94	16,508	1,021		1,340	11	
94/95	17,234	726		1,174	-166	

Source: Ministry of Finance, Statistical Yearbook 1993, 1995

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